H2O RETAILING CORPORATION

FINANCIAL REPORT 2021

Profile

Hankyu Department Stores, Inc. was established in 1929 in Umeda Osaka, as the world's first railway terminal department store by Mr. Ichizo Kobayashi, the founder of the Hankyu Corporation. Helped by the ability of a railway terminal to attract customers, the store grew together with the Umeda area, and a succession of stores in other areas were subsequently opened. In 1947, the Company was spun off from Hankyu Corporation and the Hankyu Department Stores Group was formed.

On 1st October 2007, Hankyu Department Stores, Inc. changed its name to H2O RETAILING CORPORATION and became a holding company in accordance with the management integration between Hankyu Department Stores, Inc. and Hanshin Department Store, Ltd.

On 1st June 2014, H2O RETAILING CORPORATION had a management integration with Izumiya, Co., Ltd.

On 1st October 2017, the Group purchased the businesses of Sogo Kobe and Seibu Takatsuki stores from Sogo & Seibu Co., Ltd.

Currently, the Group consists of 50 subsidiaries and 8 affiliates that operate retail businesses, including its core department store operations, supermarket operations and shopping centre operations.

Contents

General Business Conditions

1. Management Analysis of Financial Position, Business Performance and Cash Flows

The future information contained in these materials reflects judgements made at the end of fiscal year ended 31st March 2021.

(1) Accounting estimates that significantly affect the consolidated financial statements

In preparing the Group's consolidated financial statements, management makes various estimates that affect the reported amounts of assets and liabilities as of the balance sheet date, the disclosure of contingent assets and liabilities, and income and expenses for the reporting period.

Out of these accounting estimates, items deemed to contain a risk of significantly affecting the consolidated financial statements for the next fiscal year are described in "Notes to the Consolidated Financial Statements (Significant Accounting Estimates)" in the Consolidated Financial Statements. In addition, assumptions used to reflect the impact of COVID-19 in these estimates, which are applicable across accounting estimates, are described in "Notes to the Consolidated Financial Statements (Additional Information)" in the Consolidated Financial Statements.

(2) Business Performance for Reporting Period

Consolidated business performance for the fiscal year

(Millions of yen)

	March 2019 Cumulative Amount	March 2020 Cumulative Amount	March 2021 Cumulative				
			Amount	YOY	Change	Versus forecast	Change
Department Store Business	494,608	473,225	347,768	73.5%	(125,457)	103.8%	+12,768
Supermarket Business	367,580	354,115	281,116	79.4%	(72,999)	100.4%	+1,116
Shopping Centre Business	8,736	8,725	63,262	725.1%	+54,537	100.4%	+262
Other Businesses	55,948	61,222	47,051	76.9%	(14,171)	90.5%	(4,948)
Net sales	926,872	897,289	739,198	82.4%	(158,090)	101.3%	+9,198
Department Store Business	17,883	11,486	(1,903)	-	(13,390)	-	+4,096
Supermarket Business	(438)	(2,503)	4,170	-	+6,674	104.3%	+170
Shopping Centre Business	4,281	4,141	(113)	-	(4,254)	-	+886
Other Businesses	5,030	2,903	(2,690)	-	(5,594)	-	+1,309
Adjustment	(6,335)	(4,856)	(3,901)	-	+955	-	(901)
Operating income (loss)	20,422	11,171	(4,438)	-	(15,610)	-	+5,561
Ordinary income (loss)	21,376	11,831	(2,907)	-	(14,738)	-	+7,092
Extraordinary income	895	1,707	3,049	178.6%	+1,342		
Extraordinary losses	14,221	22,875	24,172	105.7%	+1,296		
Profit (loss) attributable to owners of parent	2,162	(13,150)	(24,791)	-	(11,640)	-	(2,791)

* Net sales refer to sales to external customers.

▶ Net sales

Consolidated net sales for the fiscal year ended 31st March 2021 decreased by 17.6% to ¥739,198 million. Due to COVID-19, declaration of state of emergency (in April 2020 and January 2021) and voluntary restraint of going out caused sluggish sales of department stores.

▶ Operating income / ordinary income

The Company generated a consolidated operating loss of ¥4,438 million (operating income of ¥11,171 million in the previous year) and a consolidated ordinary loss of ¥2,907 million (ordinary income of ¥11,831 million in the previous year) on account of a decrease in gross profits led by net sales decrease.

Department Store Business

Cumulative net sales were ¥347,768 million, decreased by 26.5% YOY.

Due to COVID-19 expansion, a state of emergency was declared in April 2020. Following the declaration, the Company decided that some stores would be fully closed temporarily and close temporarily except food halls for other stores. The Company re-opened all stores from the end of May with placing the highest priority on the health and safety of our customers and all employees.

The Company made its operating hours back to normal and re-started to hold events and sales promotions gradually from the second quarter. There were signs of a recovery in the trend at a time when the number of newly infected people was on a downward trend. Due to the re-expansion of the “second wave” of infections in July 2020 and the re-declaration of state of emergency in January 2021 following the “third wave,” the number of customers of commuters to offices, seniors and families decreased. As a result, the number of customers has remained at a low level in the metropolitan area. On the other hand, stores in suburban areas were comparatively strong since those stores place in neighbourhoods of residential area and have a high component ratio of food floors.

The Company made efforts to reduce costs such as advertising and decoration expenses and business consignment expenses, resulting in a cumulative operating loss of ¥1,903 million (operating income of ¥11,486 million in the previous year).

Supermarket Business

Food manufacturing companies decreased in sales and operating income in line with the demand decrease of a ready-to-eat meal and the closure of wholesale merchants. On the other hand, operating income in three companies operating supermarket stores increased by ¥7,932 million year on year. Net sales of existing stores such as Izumiya Co., Ltd. and Hankyu Oasis Co., Ltd. were good because of the high demand for eating at home associated with the COVID-19 outbreak. Also, Izumiya restructuring had the effect of increasing operating income.

* Izumiya Co., Ltd. was divided into three companies on 1st April 2020. The former Izumiya Co., Ltd., which had operated general merchandise stores selling apparel and home products in addition to groceries, was included in the Supermarket Business segment in the previous fiscal year. The results of the new Izumiya Co., Ltd., which operates only supermarkets, is included in this segment in the fiscal year ended 31st March 2021.

Shopping Centre Business

Cumulative sales increased and operating income decreased because H2O Shopping Center Development Co., Ltd., which operates management of tenants and sales of apparel and home products at Izumiya stores, is included in this segment in the fiscal year ended 31st March 2021 due to the above mentioned Izumiya Co., Ltd. separation.

At Hankyu Shopping Center Development Co., Ltd., operating income fell due to the closure or shortened opening hours of shopping centres and reduction of rent fees from tenants.

Other Businesses

Sales and operating income in Other Business decreased compared with those of the previous year. At Hankyu Kitchen Yell Kansai, Inc., the grocery home delivery service company, sales rose by 39.6% year on year led by a growth of members and operating rates due to COVID-19 spread. However, Oi Development Co., Ltd. which operates the business hotel "ours inn Hankyu" decreased operating income due to a decrease of tourists and business trip use. Also at H2O Retailing Corporation, a holding company, dividends from its subsidiaries decreased.

▶ Profit (loss) attributable to owners of parent

While the Company recorded extraordinary income of ¥2,683 million as subsidies for employment adjustment regarding personnel expenses during closing stores, the Company recorded extraordinary losses of ¥24,172 million including impairment loss of ¥14,771 million and loss related to COVID-19 of ¥5,353 million, resulted in loss attributable to owners of parent of ¥24,791 million.

Extraordinary income and losses

(Millions of yen)

Item	Amount	Main contents
Extraordinary income	3,049	(Up ¥1,342 million from the previous fiscal year)
Subsidy income	2,683	Employment adjustment subsidies
Penalty income	366	Termination fees from tenants who leave the space in the middle of the lease term
Extraordinary losses	24,172	(Up ¥1,296 million from the previous fiscal year)
Impairment loss	14,771	Kobe Hankyu, Takatsuki Hankyu, Izumiya
Loss related to COVID-19	5,353	Hankyu Hanshin Department Stores
Loss on store closings	2,103	Izumiya
Loss on retirement of non-current assets	1,944	

Track records of production, orders received and sales are as follows.

(i) Track record of production

The track record of production in the fiscal year ended 31st March 2021 by business segment is as follows:

Name of business segment	Product	Amount of production (millions of yen)	YOY %
Supermarket Business	Foods	32,280	96.6
Total		32,280	96.6

Notes:

1. The above amounts do not include consumption taxes.
2. The amounts are based on selling price.
3. There is no applicable information for business segments other than the above segment.

(ii) Status of orders received

There is no applicable information for the fiscal year ended 31st March 2021.

For the Supermarket Business (food manufacturing business), make-to-stock production is conducted based on the past track records of sales.

(iii) Track record of sales

The track record of sales in the fiscal year ended 31st March 2021 by business segment is as follows:

Name of business segment	Product	Net sales (millions of yen)	YOY %
Department Store Business	Clothing	83,134	66.4
	Accessories, bags and others	63,962	74.0
	Household merchandise	9,520	73.1
	Foods	118,315	82.6
	Restaurants and cafes	4,747	49.2
	General merchandise	63,071	71.1
	Service and other	5,292	74.6
	Elimination	(276)	101.2
	Total	347,786	73.5
Supermarket Business	Supermarkets	279,168	80.4
	Food production	10,045	104.8
	Service and other	274	11.2
	Elimination	(8,372)	160.7
	Total	281,116	79.4
Shopping Centre Business	Rental management of commercial facilities	15,350	115.7
	Service and other	8,289	67.4
	Apparel and home products	51,085	–
	Elimination	(11,462)	68.1
	Total	63,262	725.1
Other Businesses	Hotels	2,010	38.5
	Construction for interior decorating of stores	4,132	62.0
	Eating and drinking establishments	2,027	64.5
	Membership management	927	80.0
	Home delivery and delivery platform	9,187	120.8
	Temporary staffing	1,533	67.5
	Others	48,701	91.2
	Elimination	(21,469)	83.6
	Total	47,051	76.9
Total		739,198	82.4

Notes:

1. The above amounts do not include consumption taxes.

2. On 1st April 2020, the businesses of Izumiya Co., Ltd. that operate sales of apparel and home products and management of tenants were transferred to H2O Shopping Center Development Co., Ltd. Due to this separation, net sales of these businesses, which were included in the “Supermarket Business” segment in the previous fiscal year, are included in the “Shopping Centre Business” segment from the current fiscal year.

(3) Financial Position

(Millions of yen)

	31st March 2019	31st March 2020	31st March 2021		31st March 2019	31st March 2020	31st March 2021
Cash and deposits	55,229	25,958	49,991	Notes and accounts payable - trade	59,732	43,917	48,996
Notes and accounts receivable - trade	49,886	44,445	54,385	Loans payable and bonds payable	164,920	151,713	188,547
Inventories	33,920	29,688	23,339	Total liabilities	383,731	342,270	396,667
Total current assets	150,003	112,116	139,291	Shareholders’ equity	239,755	221,732	192,763
Total non-current assets	513,331	474,788	486,653	Total net assets	279,603	244,634	229,277
Total assets	663,335	586,904	625,945	Total liabilities and net assets	663,335	586,904	625,945

Total assets as of 31st March 2021 increased by ¥39,040 million from the end of the previous fiscal year to ¥625,945 million. This was primarily attributable to an increase in cash and deposits of ¥24,033 million due to an increase in loans payable and an increase in investment securities of ¥18,907 million due to an increase of unrealized gain.

Total liabilities amounted to ¥396,667 million, up ¥54,397 million from the end of the previous fiscal year. This was mainly attributable to increases in loans payable and bonds of ¥36,834 million and notes and accounts payable – trade of ¥5,078 million.

Total net assets stood at ¥229,277 million, a decline of ¥15,356 million from the end of the previous fiscal year. Although valuation difference on available-for-sale securities increased by ¥13,233 million, retained earnings decreased by ¥24,791 million due to loss attributable to owners of parent.

For the fiscal year under review, all indicators of capital efficiency and asset efficiency deteriorated, with return on equity (ROE) was -10.5% (previous fiscal year: -5.0%), return on assets (ROA) was -0.5% (previous fiscal year: 1.9%), and return on invested capital (ROIC) was -0.8% (previous fiscal year: 2.0%). These results followed a decrease in profits due to the impact of COVID-19.

(4) Cash Flows

(Millions of yen)

Major items	March 2019	March 2020	March 2021
Cash flows from operating activities	15,392	9,871	12,755
Profit (loss) before income taxes	8,050	(9,337)	(24,030)
Depreciation	17,399	18,519	18,141
Impairment loss	2,592	14,196	14,771
Decrease (increase) in notes and accounts receivable - trade	(3,017)	4,857	(10,365)
Decrease (increase) in inventories	968	3,783	6,248
Increase (decrease) in notes and accounts payable - trade	(2,249)	(14,955)	5,326
Income taxes paid	(7,304)	(5,525)	(1,858)
Cash flows from investing activities	(36,682)	(22,451)	(20,761)
Purchase of property, plant and equipment	(30,289)	(26,675)	(13,952)
Purchase of intangible assets	(3,713)	(6,938)	(4,087)
Payments of long-term loans receivable	(696)	(2,685)	(4,402)
Proceeds from sales of property, plant and equipment	1,412	9,138	1,429
Cash flows from financing activities	9,581	(16,440)	31,859
Net increase (decrease) in short-term loans payable	8,000	7,000	(15,000)
Repayments of long-term loans payable	(22,624)	(20,375)	(18,175)
Proceeds from long-term loans payable	20,040	98	70,000
Cash dividends paid	(4,941)	(4,944)	(4,018)
Operating CF + investing CF + financing CF	(11,707)	(29,020)	23,853
Cash and cash equivalents at end of year	55,229	25,958	49,991

As of 31st March 2021, cash and cash equivalents stood at ¥49,991 million, an increase of ¥24,033 million year on year.

Net cash provided by operating activities was ¥12,755 million, up ¥2,883 million year on year.

Net cash used in investing activities was ¥20,761 million, down ¥1,689 million year on year, due in part to purchase of property, plant and equipment in conjunction with the reconstruction of the Hanshin Umeda Main Store.

Net cash provided by financing activities was ¥31,859 million year on year (¥16,440 million in cash flows used in financing activities for the previous fiscal year) due in part to receipt of new loans.

With regard to the source of capital required for long-term projects such as the reconstruction of the Hanshin Umeda Main Store, the Group has decided to raise the funds with cash flows provided by operating activities and external loans.

Changes in the Group's indicators related to cash flows are as follows:

Year ended 31st March	2017	2018	2019	2020	2021
Equity ratio	41.2%	42.4%	42.0%	41.5%	36.4%
Equity ratio based on market price	34.6%	36.4%	28.7%	16.7%	18.1%
Interest-bearing debt to cash flow ratio	4.3	4.9	11.3	16.9	15.9
Interest coverage ratio (times)	36.1	32.5	21.1	12.9	16.6

Equity ratio: Equity / Total assets

Equity ratio based on market price: Market capitalization / Total assets

Interest-bearing debt to cash flow ratio: Interest-bearing debt / Operating cash flows

Interest coverage ratio: Operating cash flows / Interest expenses paid

*1 These indicators are calculated based on figures from the consolidated financial statements.

*2 Market capitalization is calculated as the stock price at the end of the period multiplied by the number of shares outstanding at the end of the period (excluding treasury shares).

*3 Operating cash flows are the cash flows from operating activities as indicated in the consolidated statements of cash flows. Interest-bearing debt is all liabilities reflected on the consolidated balance sheets that are subject to interest payments. Interest expenses paid is the amount of interest expenses paid in the consolidated statements of cash flows.

*4 The "Partial Amendments to the Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, issued on 16th February 2018), etc., have been applied from the beginning of the fiscal year ended 31st March 2019. Accordingly, total assets in the fiscal year ended 31st March 2018 and prior fiscal years are those after retrospective application.

2. Management Policies and Management Issues to be Resolved

The future information contained in this material reflects judgments made by H2O Retailing Corporation at the end of fiscal year ended 31st March 2021.

(1) The Company's Basic Management Policy

The Basic Philosophy of the Group is "To remain indispensable to the local communities through our activities of providing a model of lifestyle to local residents." Guided by this philosophy, the Group established a vision; "To be a customer's lifestyle partner to enrich their hearts through offering 'fun, happy and tasty' experiences, contributing to the future of the local community, children and our planet." The Group strives to enhance competitiveness following the vision.

Furthermore, the Group will promote management for sustainability of the Group and society through building strong ties with local community aiming for No.1 in local customer's mind share and strengthen efforts for socially important issues, such as "decarbonisation," "going plastic free," "food loss reduction" and "diversity & inclusion."

(2) Our Target Business Indicators

The Group conducts business in mature markets. To continue to enhance its enterprise value within such markets, the Group is working to improve its profitability and growth potential, focusing its corporate activities on operating income and operating income margin by business segment. The Group also aims to improve its consolidated return on equity (ROE) by realising increased operating income.

(3) The Company's Medium- to Long-term Management Strategy and Management Issues to be Resolved

In Department Store Business, we aim for the most enjoyable department store by realizing joyful and affluent lifestyle for customer, enriching their hearts and empowering their future. In order to realize this vision, we are promoting value creation and OMO (Online Merges with Offline) business model. Centring on Hankyu Umeda Main Store which is flagship store of our group and Hanshin Umeda Main Store which is going to be grand open in autumn 2021 after rebuilding, we promote providing brand new shopping experience and developing new business model, through creating value on brick-and-mortar stores continuously and strengthen online communication with customers.

Furthermore, we try to lead Ningbo Hankyu, which opened in April 2021 in China, success through strengthening sales activities to the wealthy and upper class by leveraging our ability in Hankyu Umeda Main Store in merchandising, customer services and information on customers and market. In addition, we promote grand open of Hanshin Umeda Main Store in autumn 2021 and renovation of Kobe Hankyu and Takatsuki Hankyu after 2022. We will also continue to implement cost structure reforms in order to lower our break-even point.

In Supermarket Business, aiming to increase operating income, we will work to further strengthen the competitiveness and improve the profitability of our mainstay food supermarkets. We will further promote the integration of the supermarket management functions of Izumiya Co., Ltd. and Hankyu Oasis Co., Ltd. We will also accelerate the development of a business model with enhanced market responsiveness, rebuild our chain operation management capabilities, and strengthen our sales capabilities through integrated manufacturing and sales operations. Furthermore, we will promote initiatives for smart shopping and operational efficiency through the use of digital technology, including the full-scale start of in-store demonstration tests of a next generation "image recognition AI shopping cart" equipped with cutting-edge technology.

In H2O Shopping Center Development Co., Ltd. which was divided from Izumiya Co., Ltd. in April 2020, we will increase profitability by downsizing our direct operations and promoting the shift to shopping centre from general merchandise store, and at the same time, we will improve our customer mind share by promoting activities to build strong ties with the community. In Oi Development Co., Ltd. which operates a business hotel, we will strive to improve profitability with an eye on the after-corona business through low-cost operations using IT and strengthening corporate sales.

Furthermore, we try to develop new customer service business through digital technologies by leveraging our uniqueness point which has variety touch points with customers in Kansai region. In other words, we challenge new business area as a group for finding synergy with real stores.

The Company has been facing a never experienced situation with a drastic change in the social and economic environment by COVID-19 outbreak since 2020. For a while, the Company will operate businesses as appropriate following the requests from the government and local authorities, with prioritizing customers' and employees' safety and health. Besides, the Company will strive to enhance management efficiency through reducing costs including fixed costs, revision of capital investment and reducing underperforming assets.

3. Business Risk

Of matters concerning the overview of business, financial information, etc., provided in the financial report, matters which may have significant effects on investors' judgment include those described below. However, risks and uncertainty that may be caused on future operating results and financial position are not limited to these matters. Furthermore, the extent and period of the possibility of risk materialization presented below as well as the impact on operating results are not presented as they are difficult to reasonably estimate.
Matters concerning the future in the text were judged by the Group as of the date of filing of the financial report.

(1) Business Environment

Environment surrounding retail businesses
As for the environment surrounding Japan's retail businesses, significant changes are expected, including aging population, polarization of consumption structure and tightening competition beyond business categories. These changes are expected to have considerable effects on the Group's operating results. In addition, the prolonged impact of COVID-19 may cause drastic changes to consumer lifestyles and workstyles, with refraining from going out, remote work, online shopping, and online communication taking root.
In order to respond to the changes in this environment, the Group will utilise one of its unique characteristics, in which it has various points of contact with customers in the Kansai region, and strive to build up new customer relationships and business models that fuse brick-and-mortar stores and digital technologies. Furthermore, the Company will achieve an increased market share in the Kansai region by refining and strengthening the Department Store Business, its core business, and the Supermarket Business, which is centred on food supermarkets.

(2) Laws and Regulations, and Legal Revisions

(i) Laws and regulations such as the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment

Opening of department stores and supermarkets by the Group is subject to regulation under the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment. Under the act, in cases where a new store with store space of more than 1,000 m^2 is opened and where the store space of an existing store is increased to more than 1,000 m^2, local prefectural governments or ordinance-designated cities examine and control traffic congestion, noise, waste management and other matters from the standpoint of protecting the living environment of neighbourhood residents. Accordingly, the Group's future plans to open stores may be affected by such laws and regulations.
Besides, the Group is subject to laws and regulations such as the Antimonopoly Act, the Subcontract Act, environment and recycle related laws and regulations, and the Act against Unjustifiable Premiums and Misleading Representations and other laws and regulations related to consumer protection, and may also be affected by these laws and regulations.
The Group will strive to respond in a timely and appropriate manner while closely observing the legislative revision trends that affect these business activities.

(ii) Increase in the consumption tax rate resulting from the tax system revision

There is a possibility that the consumption tax rate will be raised gradually to secure the financial resources needed for future social welfare. This may cause a decline in personal consumption and have negative effects on the Group's net sales.

(3) Natural Environment and Accidents

(i) Risk of infection

There is a possibility that the spread of infectious diseases, such as COVID-19, as well as their prolonged ramifications, will cause a significant negative impact on operating results, mainly in the Department Store Business, which is one of the Group's major businesses, due to stores refraining from operating and the decrease in demand from both Japanese customers and visitors from overseas.

Furthermore, there is a possibility that the Shopping Centre Business, in which rents in commercial facilities are one source of profits, will face a significant negative impact on operating results due to a decrease in rents collected, tenants leaving, etc. as a result of refraining from operating as well as other factors.

On the other hand, assuming that operations will continue amid the spread of infection, the Group believes that the impact of COVID-19 on the operating results of the Supermarket Business, which is responsible for functions that serve as daily lifelines, will be relatively small. However, there is a possibility that costs will increase significantly due to this situation as a special response is necessary for the continuation of operations under this environment where infection is spreading, such as measures to prevent the spread of infection to customers and employees in store facilities, a response in the case that someone is infected, and a response in the case that difficulties arise in product procurement due to supply chain disruption, etc.

Based on the know-how regarding business continuity amid the spread of infection gained through the response to COVID-19 this time, the Group will work to reduce the impact when these same risks manifest in the future.

(ii) Unusual weather such as cool summer and warm winter

Many of clothing items, which are the Group's mainline products, are highly fashionable and seasonable, and sales of these items are affected by weather to some extent. Therefore, cool summer, warm winter and other unusual weather may have negative effects on the Group's net sales.

(iii) Natural disasters and accidents

If business facilities including stores are damaged by unforeseeable disasters or accident such as earthquake, flood, typhoon or fire, this may have negative effects on the Group's operating results. As preparation to respond to these natural disasters and accidents, the Group is taking measures such as formulating a response manual, etc. and taking out property insurance.

(4) Others

(i) Refusal to renew a lease agreement

Many of the Group's stores and facilities are leasehold properties. If lessors including owners of buildings and land refuse to renew (in the case of fixed-term building lease agreement, refuse to resign) an agreement due to expiration of the lease period, operation of the store, etc. may become unable to be continued.

(ii) Safety of goods sold

General consumers' heightened sense of concern about foods due to outbreaks of BSE, bird flu and other diseases, occurrence of accidents such as food poisoning and health hazards, and a decrease in customer satisfaction or confidence stemming from defects in goods sold may have negative effects on the Group's net sales. As for quality control and hygiene control of goods sold, "Quality Control Promotion Subcommittee" and "Food Hygiene Quality Control Promotion Subcommittee" have been set up within the Group to aggressively promote measures to ensure safety and security of goods for customers.

(iii) Management of customer information

If customer information is leaked to outsiders as a result of any unpredictable accident or contingent event, this may cause a reduction in credibility of the Group and have negative effects on its net sales. As for management of customer information, the Group ensures the strict operation of rules and the education of employees based on the personal information management regulations and the management manual and strives to comply with the Act on the Protection of Personal Information.

(iv) Information system

The Group utilises information systems in each field to promote streamlining of operations and provide high-quality services. However, if any unforeseeable contingency, such as earthquake, fire, massive blackout or computer virus, disrupts the smooth operation of information system, this may have negative effects on the Group's operating results.

(v) Overseas business risk

The Group operates stores in China. Therefore, the political climate, economic environment, changes in laws and regulations, terrorist acts and other factors in China may have negative effects on its operating results and financial position.

In addition, items denominated in the local currency including net sales, expenses and assets of stores in China are converted into yen to prepare consolidated financial statements. Exchange rate fluctuations at the time of conversion may affect these items.

Corporate Governance System

(1) Outline of Corporate Governance System

(i) Corporate Governance System

a. Basic views on corporate governance

The Company's basic philosophy is "To remain indispensable to the local communities through our activities of providing a model of lifestyle to local residents," and under its new vision of "To be a customer's lifestyle partner to enrich their hearts through offering 'fun, happy and tasty' experiences, contributing to the future of the local community, children and our planet," the Company considers that its purpose is to contribute to society overall while meeting the expectations of its stakeholders, who are customers, shareholders, business partners, and employees.

Based on the basic philosophy and management vision, the Company will perform swift, efficient and strong-minded decision making and work to increase its medium- to long-term corporate value, while meeting various stakeholders' expectations and emphasising compliance. To this end, the Company will also ensure the enhancement of corporate governance.

b. Outline and rationale of corporate governance system

In the H2O Retailing Group, H2O Retailing Corporation (the Company), a holding company, is responsible for the business planning, management and oversight of the entire Group. It seeks through proper and legal means to raise the corporate value of Group companies by building a corporate governance system that facilitates fast-acting and efficient companies.

The Company has adopted a "Company with an Audit and Supervisory Committee" (hereinafter, "ASC") system with a view to increasing its corporate value over the medium to long term.

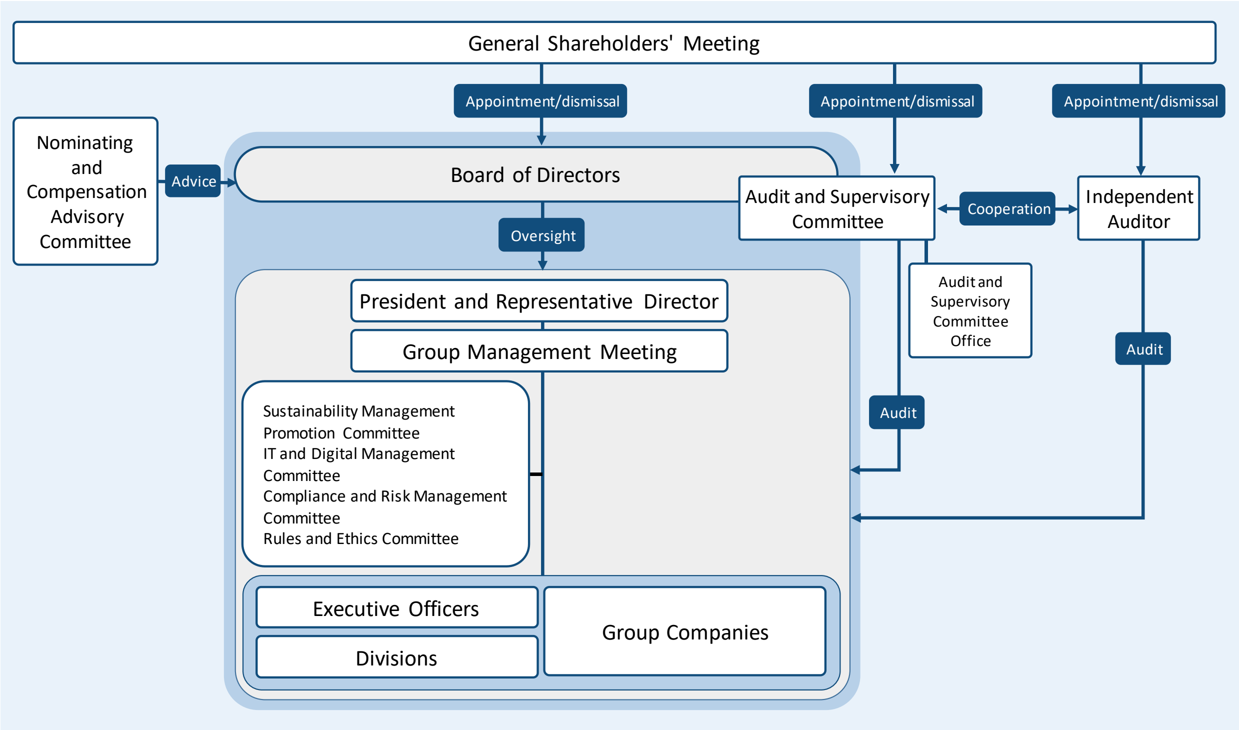
The Company's Board of Directors consists of 10 directors (five (5) directors are ASC members), including four (4) outside directors (four (4) outside directors are ASC members). Thus, more than one-third of directors on the Board of Directors will be outside directors. For names of the members, please see "(2) Status of Officers, (i) Officers." The Chairman of the Board of Directors is Mr. Atsushi Suzuki, Chairman of the Board and the Chairman of the ASC is Mr. Toshimitsu Konishi, Director, full-time ASC member.

To ensure the fairness and transparency of the process of appointing directors and deciding compensation for directors, the Company will continue to have a voluntary Nominating and Compensation Advisory Committee (Note 1). Regarding the agenda on appointing candidates for directors or compensation for directors, in view of the basic principles regarding the corporate governance stipulated by the Company, the Nominating and Compensation Advisory Committee considers the agenda and advises the Board of Directors before the Board of Directors makes a decision. As for directors who are ASC members, decisions concerning their nominations are made with the consent of the ASC, and decisions concerning their compensation are made through discussion among ASC members.

In addition, for quick decision making and efficient management of the Group, the Group Management meeting (Note 2) was established as the fronting body for the Board of Directors, making decisions on important matters for Group companies. Group companies, including H2O Retailing Corporation, have clearly defined business responsibilities established through the adoption of an executive officer system. The directors and the Board of Directors of each company have adopted this system for man aging and overseeing the business execution of the executive officers.

The ASC audits and supervises business execution through means such as the exercise of voting rights held by ASC members at Board of Directors' meetings and the exercise of the right to state opinions on personnel affairs and compensation of directors who are not ASC members.

■Corporate Governance Framework



Note 1: Nominating and Compensation Advisory Committee

The committee consists of independent outside directors (Mr. Naoshi Ban and Mr. Kenjiro Nakano), which comprise the majority of the committee, and Mr. Naoya Araki, President and Representative Director. The Chairman is Mr. Naoshi Ban, independent outside director.

Note 2: Group Management Meeting

The meeting consists of the Company's full-time directors (Mr. Atsushi Suzuki, Mr. Naoya Araki, Mr. Katsuhiro Hayashi and Mr. Toshihiko Yamaguchi) and Audit and Supervisory Committee Member (Mr. Toshimitsu Konishi) and the Company's executive officer (Mr. Hiroyasu Kuromatsu, Mr. Kenji Uno, Mr. Gaku Watanabe, Mr. Hideki Kashihara and Mr. Toru Koyama). The Chairman is Mr. Naoya Araki, President and Representative Director.

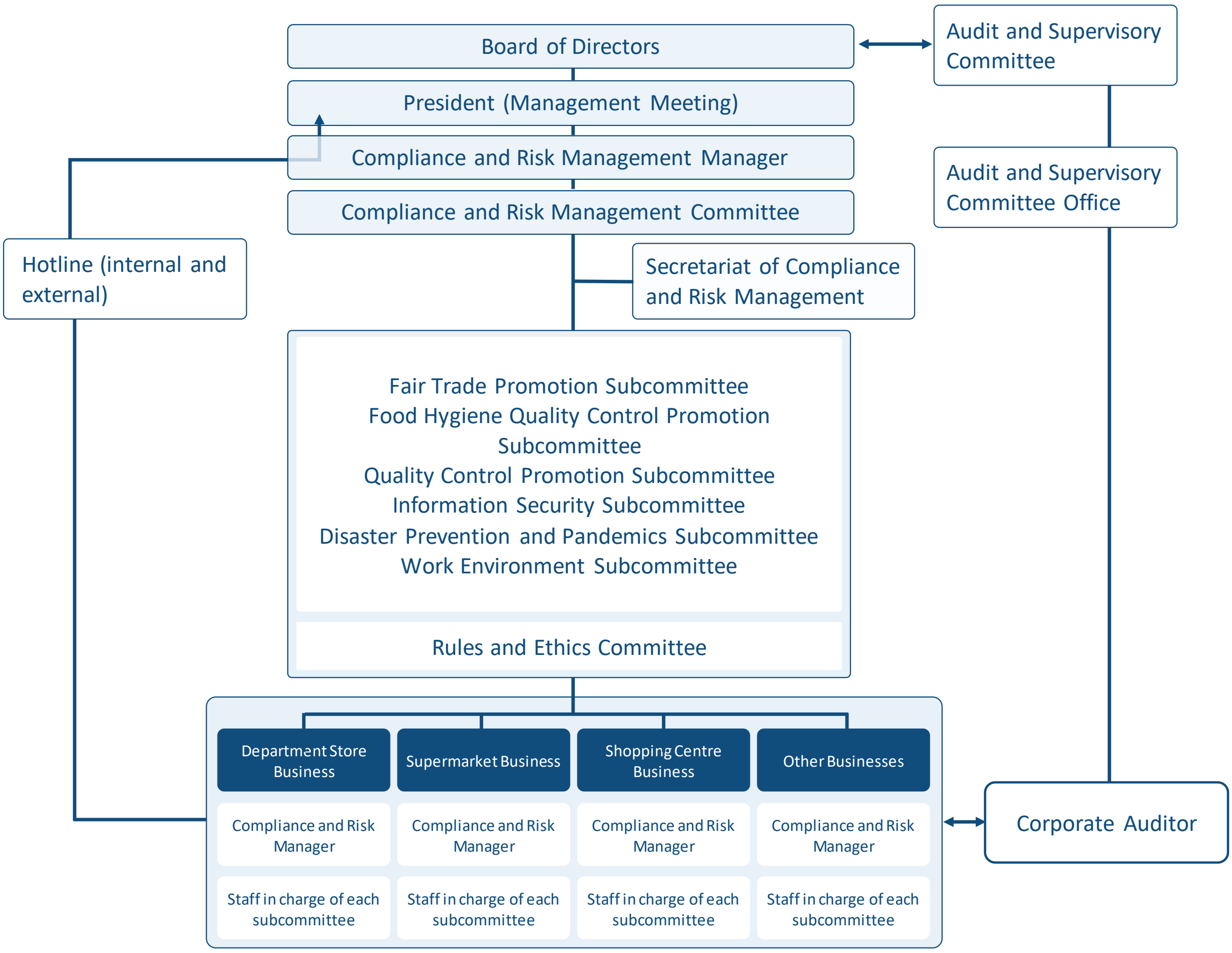
c. Internal control and risk management system

■Group Compliance and Risk Management System

The Company resolved the framework of its control system to ensure business appropriateness as follows:

A. Ensuring performance of duties by directors and employees in full compliance with laws and regulations as well as the Company's Articles of Incorporation

Compliance



The H2O Retailing Group has a code of conduct stipulating basic principles so that executives and employees will act in accordance with the Companies' code of ethics, laws, rules and regulations. We have also compiled the Group Compliance Regulations, establishing basic policies and rules to ensure Group-wide compliance. In addition, we appoint outside directors with the necessary knowledge and experience to help the Group ensure full compliance.

In addition to establishing the "Compliance and Risk Management Committee" (Note 1) to take the lead in building and developing a compliance system, each business of the Company and the Group has a person in charge of carrying out compliance policy and sharing information.

In addition, the Group has set up a whistle-blowing system and established rules for disciplinary action in the case of legal and regulatory violations or instances of fraud committed by Group executives or employees.

The Company has an internal audit function and audits the status of compliance in accordance with the newly established “Internal Audit Policy.”

Ensuring the reliability of financial reporting

At each company in the Group, we have set up internal control systems to ensure the reliability of financial reporting. At the Company, we carry out appraisals of the implementation and operational status of internal controls related to financial reporting on a Group-wide basis in accordance with the Financial Instruments and Exchange Act and related laws and regulations.

Eliminating antisocial forces

The “H2O Retailing Group code of conduct” explicitly prohibits any accession by the Group to unacceptable demands made by antisocial elements that threaten public order and safety. We are also strengthening our partnerships with specialist external organisations such as the police and lawyers, and have created systems for insulating ourselves from all contact with antisocial elements.

Note 1: Compliance and Risk Management Committee

The committee consists of officers of the Company and major subsidiaries (Mr. Katsuhiro Hayashi, Mr. Toshihiko Yamaguchi, Mr. Kimihiko Kitabe, Mr. Norifumi Morii, Mr. Yukichika Sato, Mr. Masaru Ikejima, and Mr. Tomoyuki Umemoto). The Chairman is Mr. Katsuhiro Hayashi, Representative Director and Executive Vice President of the Company, who is in charge of compliance and risk management for the Group.

B. Storage and management of information related to execution of duties by directors

Internal documentation related to the execution of duties by directors and executives and other information is stored and managed based on laws and regulations for archiving.

C. Regulations and other systems for management of risk of loss

Risk management systems

We have compiled a framework of risk management procedures which establishes principles for the prevention of risk events, reporting when risk events occur and dealing with the consequences of risk event occurrence.

Basic policies and regulations for risk management enable Group companies to take precautionary measures against risk and to minimise losses when risk events occur. The Compliance and Risk Management Committee collates risk related information and prepares countermeasures while Group companies voluntarily create their own systematic measures to deal with risk based on individual Group company characteristics. Concurrently, a system for pooling information regarding risk faced by all companies in the Group is in place.

D. Ensuring effective performance of duties by Directors

In order to clarify the management supervisory responsibilities of directors and the responsibilities of executive officers and to promote more efficient performance of duties by directors, an executive officer system has been introduced at all Group companies, with the Group Management meeting responsible for effective business decision-making for the Company and the Group. This body manages business performance on a monthly and quarterly basis and assesses the progress of business plans at the Board of Directors meetings and Group Management meetings, making revisions to targets as necessary.

Authority and responsibility have also been clarified based on approval procedures for the issuing and acceptance of management instructions based on job grade.

E. Ensuring sound conduct of business in the Group companies

Based on Group company management protocol, business planning, marketing policies and other important operational matters at Group companies are taken up or reported at Group Management meetings and Board of Directors' meetings.

The Company's internal auditing, compliance and risk management systems apply to all companies in the Group.

F. Audit assistants and their independence from directors who are not ASC members and effectiveness of instruction by ASC in cases in which an ASC seeks help in performing auditing duties

At a request by the ASC, dedicated ASC staff members are selected to help the ASC carry out its duties. These assistants do not report to directors who are not ASC members.

G. Reporting to the ASC by directors who are not ASC members and employees, other reporting to the ASC and ensuring such reporting will not become the basis for any unfair treatment

ASC members regularly hold meetings with representative directors, dedicated ASC staff members, staff members of internal control divisions (Finance and Accounting, General Affairs, Human Resources and Information Technology Promotion, etc.) and the Group Corporate Auditors Committee, attend important meetings such as Group Management meetings and review the approval documents and minutes of Group Management meetings and other committee meetings.

When requested by the ASC, the Group's directors and employees shall promptly report to the ASC regarding matters related to the administration of business. Upon discovering any issue such as the violation of laws and regulations which may cause significant loss to the Company or Group companies, the Group's directors and employees shall report to ASC members or corporate auditors of the respective companies of the Group who subsequently report to the Company's ASC.

The status of the Group's internal audits, compliance, risk management and internal whistle-blower system is regularly reported to the Company's ASC.

All members of the Group are informed that it is strictly prohibited to treat any director, officer or employee unfairly on the grounds that they have provided a relevant report for the ASC or corporate auditors.

H. System to ensure that audits by ASC are executed effectively

Based on requests from the ASC, dedicated ASC staff members are designated as corporate auditors of each company of the Group. When the ASC requests the hiring of outside experts such as lawyers or certified public accountants as their advisors and when ASC members request relevant expenses to fulfil their roles in advance, the Company promptly bears such costs in accordance with applicable laws and regulations. The Company establishes an annual budget for such costs for ASC members.

The following summarises the status of operations for the year ended 31st March 2021.

(1) In order to ensure proper operations, the Company prescribed the internal rules of “H2O Retailing Group Code of Conduct” and “Group Compliance Regulations” and established the Group’s operations rules, which summarise the basic matters with which each of Group companies shall comply. All directors and employees are informed of these rules.
The Group has facilitated the use of mobile devices and other efforts to enable diverse workstyles and efficient operations. In the fiscal year ended 31st March 2021, following the spread of COVID-19, the Group advanced the development of a remote working environment that gives the means to continue operations and share information despite these circumstances, such as by introducing systems, including electronic approvals and an internal communication portal. In addition, the Company reviewed the Group company management protocol, which stipulates the rules for the reporting of business planning, marketing policies and other important operational matters at Group companies to the Company.

Furthermore, the Group revised its compliance and risk management structure to centralise risk related information within the Group, flexibly address the occurrence of a pandemic such as COVID-19 and changes in the work environment, and develop human resources involved in compliance and risk management. In an effort to prevent the materialization of risks and minimize losses when a risk manifests, the Compliance and Risk Management Committee will collate risk related information within the Group and prepare countermeasures. The Company also worked to further enhance its structure by setting up the “Disaster Prevention and Pandemics Subcommittee” and the “Work Environment Subcommittee,” new specialised subcommittees to address recent issues such as COVID-19, earthquakes, typhoons and floods, as well as harassment and changes in the work environment.

(2) As compliance and risk management initiatives, the Company promotes measures for various fields including fair trading, quality control, information security, harassment, disaster prevention and pandemics, and shares information.

In the fiscal year ended 31st March 2021, the Company set up a Group taskforce led by the President and Representative Director to address the spread of COVID-19. With ensuring the safety of customers, employees and business partners as the top priority, the taskforce formulated and implemented various measures according to changes in the state of infections, and worked to prevent the spread of COVID-19.

Moreover, the Company reviewed the content of its Social Media Policy to prevent risks associated with the increased use of social media for communicating information, and continued efforts from the previous year to build awareness to prevent harassment and share information, including policies on initiatives in response to the amendment to labour-related laws.

The Companies have a whistle-blower hotline named "Compliance Hotline," and the Company and some major subsidiaries have divisions in charge of the Hotline. This internal whistle-blowing system is in continuous operation, and the status of whistle-blowing is regularly reported to Representative Directors and a full-time ASC member.

In order to ensure the reliability of financial reporting, we carried out an evaluation of the status of the Group's control, such as by carrying out the development and evaluations of the internal control of H2O Shopping Center Development Co., Ltd. and H2O Foods Group Co., Ltd., who were added to the scope of our assessments of group-wide controls, and carried out an evaluation of the status of development and operation of internal controls, primarily of Hankyu Hanshin Department Stores, Inc., Izumiya Co., Ltd. and Hankyu Oasis Co., Ltd., on a business process level.

In relation to antisocial forces, the Company continues to ensure that clauses for the elimination of organised crime groups are included in relevant contracts and documents.

(3) With respect to the audit system, the Company continues to assign thirteen (13) dedicated staff members who support the duties of the ASC as requested by the ASC and designate each staff member as a corporate auditor or a person taking responsibility of internal audit function.

Additionally, ASC members periodically hold meetings with Representative Directors and staff members in the internal control divisions (Business Strategy Division, Management Planning Division, Finance Division, System Division, General Affairs and Human Resources Division and J-SOX Division) while the full-time ASC member attends important meetings such as Group Management meetings.

(ii) Outline of the Liability Limitation Agreements

As of 22nd June 2016, the Company entered into a liability agreement with each outside director in accordance with Article 427(1) of the Companies Act ("Act") for the purpose of limiting liability as prescribed in Article 423(1) of the Act. Under the agreement, the maximum amount of liability of an outside director shall be limited to the amount prescribed in the Act.

(iii) Outline of the Directors and Officers Liability Insurance Agreement

The Company has entered into a directors and officers liability insurance agreement as stipulated in Article 430-3, paragraph (1) of the Act. An outline of the agreement is as follows.

a. Scope of the insured

All directors (including ASC members), corporate auditors and executive officers of the Company and the Group

b. Effective share of insurance premiums paid by the insured

Insurance premiums for the insured who belong to the Company (directors including ASC members and executive officers of the Company) are fully paid by the Company, including premiums for riders.

c. Outline of insured events eligible for compensation

The insurance policy compensates for damages that may be incurred by the insured due to the insured assuming liability for the execution of their duties or receiving a claim in relation to the pursuit of such liability.

There are certain exemptions, including events arising from criminal acts committed by the insured and events arising from acts committed by the insured with the knowledge that such acts are in violation of laws and regulations.

d. Measures to ensure the appropriateness of the execution of duties by directors and officers is maintained
In addition to the exemptions described in c., the agreement stipulates a deductible, and damages up to the deductible will not be compensated.

(iv) Exemption from Liability of Directors

The Company provides in the Articles of Incorporation that, at a resolution of the Board of Directors' meeting, the liability of directors (including former directors) who fail to perform their duties shall be exempt by a statutory limit based on Article 426(1) of the Act. This provision enables directors to perform their duties without the effects of anxiety and allows the Company to continue inviting outside directors with deep insights and a wealth of experience. The above provision also applies to the corporate auditors (including former corporate auditors) before a resolution of the 97th Ordinary General Shareholders' Meeting held on 22nd June 2016.

(v) Number of Directors as Provided in the Articles of Incorporation

The Company provides in the Articles of Incorporation that the number of directors excluding directors who are ASC members shall be ten (10) or less and that of directors who are ASC members shall be five (5) or less.

(vi) Selection of Directors

The Company provides in the Articles of Incorporation that a resolution of a Shareholders' Meeting shall be made by a majority of the votes of the shareholders present at meetings where shareholders holding one third or more of the votes of the shareholders entitled to exercise voting rights are present. It is also provided in the Articles of Incorporation that directors shall not be appointed by cumulative voting.

(vii) Matters Regarding Dividends

For the purpose of implementing a dividend policy corresponding to the status of business operations, the Company provides in the Articles of Incorporation that matters regarding dividends, including matters prescribed in Article 459(1) of the Act, shall be resolved at a Board of Directors' meeting regardless of a resolution by a Shareholders' Meeting unless otherwise prescribed in the Act.

(viii) Requirement for Resolution of a Special Proposal at a Shareholders' Meeting

For the purpose of smooth deliberations regarding a special proposal at a Shareholders' Meeting, the Company provides in the Articles of Incorporation that a special proposal submitted at a Shareholders' Meeting as prescribed in Article 309(2) of the Act shall be resolved by a majority of two thirds or more of the votes of the shareholders present at meetings where the shareholders holding one third or more of the votes of the shareholders entitled to exercise voting rights are present.

(2) Status of Officers

(i) Officers

Male: 8; Female: 2 (The ratio of female officers is 20.0%)

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
Chairman of the Board, Chairman of the Board of Directors	Atsushi Suzuki	5 April 1956	Apr. 1980	Joined Hankyu Department Stores, Inc.	(Note) 2	26,100
			Oct. 2000	Executive Manager, SC Division, Hankyu Department Stores, Inc.		
			Apr. 2003	Representative Director and Senior Managing Executive Officer, Hankyu Shopping Center Development Co., Ltd.		
			Apr. 2006	Executive Officer, Hankyu Department Stores, Inc.		
			Oct. 2008	Executive Officer, Hankyu Hanshin Department Stores, Inc.		
			Apr. 2013	Director and Managing Executive Officer, Hankyu Hanshin Department Stores, Inc.		
			Mar. 2014	Director, H2O RETAILING CORPORATION		
			Apr. 2014	President and Representative Director, H2O RETAILING CORPORATION		
			Apr. 2020	Chairman of the Board, Chairman of the Board of Directors, H2O RETAILING CORPORATION (present position)		
President and Representative Director	Naoya Araki	14 May 1957	Apr. 1981	Joined Hankyu Department Stores, Inc.	(Note) 2	13,400
			Apr. 2003	General Manager, Suburban Store Development Office, Hankyu Department Stores, Inc.		
			Apr. 2004	Executive Officer, Hankyu Department Stores, Inc.		
			Oct. 2008	Executive Officer, Hankyu Hanshin Department Stores, Inc.		
			Jun. 2010	Director and Executive Officer, Hankyu Hanshin Department Stores, Inc.		
			Mar. 2012	President and Representative Director, Hankyu Hanshin Department Stores, Inc.		
			Jun. 2012	Representative Director, H2O RETAILING CORPORATION		
			Apr. 2020	President and Representative Director, H2O RETAILING CORPORATION (present position)		
			Apr. 2020	Chairman and Representative Director, Hankyu Hanshin Department Stores, Inc. (present position)		

<table>
<tr><th>Title</th><th>Name</th><th>Date of birth</th><th colspan="2">Brief history</th><th>Term of office</th><th>Number of company shares held</th></tr>
<tr><td rowspan="13">Representative Director and Executive Vice President
In charge of the Food Business</td><td rowspan="13">Katsuhiro Hayashi</td><td rowspan="13">20 January 1958</td><td>Apr. 1982</td><td>Joined Hankyu Department Stores, Inc.</td><td rowspan="13">(Note) 2</td><td rowspan="13">16,900</td></tr>
<tr><td>Apr. 2002</td><td>General Manager, Public Relations Office, Hankyu Department Stores, Inc.</td></tr>
<tr><td>Apr. 2005</td><td>General Manager, Compliance Office, Hankyu Department Stores, Inc.</td></tr>
<tr><td>Jun. 2009</td><td>Director and Executive Officer, H2O RETAILING CORPORATION</td></tr>
<tr><td>Jun. 2009</td><td>Executive Officer, Hankyu Hanshin Department Stores, Inc.</td></tr>
<tr><td>Apr. 2012</td><td>Director and Executive Officer, Hankyu Hanshin Department Stores, Inc.</td></tr>
<tr><td>Apr. 2014</td><td>Director and Managing Executive Officer, H2O RETAILING CORPORATION</td></tr>
<tr><td>Apr. 2014</td><td>Director and Managing Executive Officer, Hankyu Hanshin Department Stores, Inc.</td></tr>
<tr><td>Apr. 2015</td><td>Representative Director and Senior Managing Executive Officer, H2O RETAILING CORPORATION</td></tr>
<tr><td>Apr. 2015</td><td>In charge of the General Affairs and Human Resources Office (present position) and the
Public Relations Office, H2O RETAILING CORPORATION</td></tr>
<tr><td>Apr. 2015</td><td>Representative Director and Senior Managing Executive Officer, Hankyu Hanshin Department Stores, Inc.</td></tr>
<tr><td>Apr. 2017</td><td>Representative Director and Executive Vice President, H2O RETAILING CORPORATION (present position)</td></tr>
<tr><td>Nov. 2019</td><td>President and Representative Director, H2O Foods Group Co., Ltd. (present position)</td></tr>
<tr><td rowspan="9">Representative Director
In charge of the Department Store Business</td><td rowspan="9">Toshihiko Yamaguchi</td><td rowspan="9">21 August 1963</td><td>Apr. 1986</td><td>Joined Hankyu Department Stores, Inc.</td><td rowspan="9">(Note) 2</td><td rowspan="9">5,600</td></tr>
<tr><td>Apr. 2009</td><td>Store Manager, Kawanishi Hankyu Department Store of Hankyu Hanshin Department
Stores, Inc.</td></tr>
<tr><td>Apr. 2011</td><td>Sales Service Executive Manager, Yurakucho Hankyu Department Store of Hankyu Hanshin Department Stores, Inc.</td></tr>
<tr><td>Aug. 2011</td><td>Sales Service Executive Manager, Hankyu Men’s Tokyo of Hankyu Hanshin Department Stores, Inc.</td></tr>
<tr><td>Apr. 2012</td><td>Store Manager, Hankyu Men’s Tokyo of Hankyu Hanshin Department Stores, Inc.</td></tr>
<tr><td>Apr. 2014</td><td>Executive Officer, Hankyu Hanshin Department Stores, Inc.</td></tr>
<tr><td>Apr. 2018</td><td>Director and Executive Officer, Hankyu Hanshin Department Stores, Inc.</td></tr>
<tr><td>Apr. 2020</td><td>President and Representative Director, Hankyu Hanshin Department Stores, Inc. (present
position)</td></tr>
<tr><td>Jun. 2020</td><td>Representative Director, H2O RETAILING CORPORATION (present position)</td></tr>
</table>

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
Director	Kazuo Sumi	19 April 1949	Apr. 1973	Joined Hankyu Corporation (currently Hankyu Hanshin Holdings, Inc.)	(Note) 2	28,700
			Jun. 2000	Director, Hankyu Corporation		
			Jun. 2002	Managing Director, Hankyu Corporation		
			Jun. 2003	President and Representative Director, Hankyu Corporation		
			Oct. 2007	Director, H2O RETAILING CORPORATION (present position)		
			Jun. 2017	Chairman and Representative Director, Group CEO, Hankyu Hanshin Holdings, Inc. (present position)		
Director Standing Audit and Supervisory Committee Member	Toshimitsu Konishi	17 April 1944	Apr. 1967	Joined Hankyu Department Stores, Inc.	(Note) 3	27,600
			Sep. 1988	General Manager, Accounting Department, Hankyu Department Stores, Inc.		
			Jun. 2000	Director, Hankyu Department Stores, Inc.		
			Apr. 2002	President and Representative Director, Hankyu Foods Co., Ltd.		
			Jun. 2002	Adviser, Hankyu Department Stores, Inc.		
			Jun. 2004	Standing Corporate Auditor, Hankyu Department Stores, Inc.		
			Oct. 2007	Standing Auditor, H2O RETAILING CORPORATION		
			Oct. 2008	Auditor, Hankyu Hanshin Department Stores, Inc. (present position)		
			Jun. 2016	Director and Standing Audit and Supervisory Committee Member, H2O RETAILING CORPORATION (present position)		

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
Director Audit and Supervisory Committee Member	Naoshi Ban	30 September 1946	Apr. 1969	Joined Mitsubishi Logistics Corporation	(Note) 3	13,200
			Jun. 2000	Director, Mitsubishi Logistics Corporation		
			Jun. 2001	Managing Director, Mitsubishi Logistics Corporation		
			Jun. 2003	President and Representative Director, Mitsubishi Logistics Corporation		
			Jun. 2008	Representative Director and Chairman, Mitsubishi Logistics Corporation		
			Jun. 2010	Chairman of the Board, Mitsubishi Logistics Corporation		
			Apr. 2013	Director and Senior Corporate Advisor, Mitsubishi Logistics Corporation		
			Jun. 2013	Senior Corporate Advisor, Mitsubishi Logistics Corporation		
			Jun. 2015	Director, H2O RETAILING CORPORATION		
			Jun. 2016	Director and Audit and Supervisory Committee Member, H2O RETAILING CORPORATION (present position)		
			Apr. 2018	Special Advisor, Mitsubishi Logistics Corporation		
Director Audit and Supervisory Committee Member	Kenjiro Nakano	13 August 1947	Apr. 1971	Joined Sumitomo Bank, Ltd.	(Note) 3	4,200
			Apr. 1998	Director, Sumitomo Bank, Ltd.		
			Jun. 2002	Managing Executive Officer, Sumitomo Mitsui Banking Corporation		
			Jun. 2004	Managing Director cum Managing Executive Officer, Sumitomo Mitsui Banking Corporation		
			Jun. 2005	Senior Managing Director cum Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation		
			Apr. 2006	Representative Director cum Deputy President Executive Officer, Sumitomo Mitsui Banking Corporation		
			Apr. 2008	Representative Director cum Deputy Chairman, Sumitomo Mitsui Banking Corporation		
			Jun. 2010	President, Keihanshin Real Estate Co., Ltd. (currently Keihanshin Building Co., Ltd.)		
			Jun. 2013	Outside Director of Maruichi Steel Tube Ltd. (present position)		
			Jun. 2016	Chairman, Keihanshin Building Co., Ltd. (present position)		
			Jun. 2016	Director and Audit and Supervisory Committee Member, H2O RETAILING CORPORATION (present position)		

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
Director Audit and Supervisory Committee Member	Mayumi Ishihara	3 May 1963	Apr. 1997	Registered as attorney with the Osaka Bar Association	(Note) 3	500
			Apr. 1997	Joined Oh-Ebashi LPC & Partners		
			Jun. 2013	Outside Auditor, Morishita Jintan Co., Ltd.		
			Feb. 2016	Outside Director, Morito Co., Ltd. (present position)		
			Apr. 2016	Outside Director (Audit and Supervisory Committee Member), OS Co., Ltd. (present position)		
			Jun. 2016	Director and Audit and Supervisory Committee Member, H2O RETAILING CORPORATION (present position)		
			Jun. 2018	Outside Director (Audit and Supervisory Committee Member), Morishita Jintan Co., Ltd. (present position)		

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
Director Audit and Supervisory Committee Member	Nobuko Sekiguchi	3 July 1968	Nov. 2005	Joined Capcom Co., Ltd.	(Note) 3	0
			Oct. 2007	Accounting Manager, Capcom Co., Ltd.		
			Apr. 2011	Corporate Officer in Management of Corporate Planning, Capcom Co., Ltd.		
			Apr. 2016	Managing Corporate Officer in Manager of Corporate Planning & Manager of Human Resources Division, Capcom Co., Ltd.		
			Mar. 2019	Left Capcom Co., Ltd.		
			Jun. 2019	Outside Director, Duskin Co., Ltd. (present position)		
			Jun. 2020	Director and Audit and Supervisory Committee Member, H2O RETAILING CORPORATION (present position)		
Total						136,200

Notes:

1. Mr. Naoshi Ban, Mr. Kenjiro Nakano, Ms. Mayumi Ishihara and Ms. Nobuko Sekiguchi are outside directors.
2. One year from the conclusion of the Ordinary General Shareholders' Meeting held on 22nd June 2021.
3. Two years from the conclusion of the Ordinary General Shareholders' Meeting held on 23rd June 2020.
4. The Chairman of the Board of Directors is Mr. Atsushi Suzuki.
5. The Company is a Company with an Audit and Supervisory Committee. The Chairman of the Audit and Supervisory Committee is Mr. Toshimitsu Konishi. The members of the Audit and Supervisory Committee are Mr. Naoshi Ban, Mr. Kenjiro Nakano, Ms. Mayumi Ishihara and Ms. Nobuko Sekiguchi.

(ii) Outside Directors

The number of directors from outside the Company is four (4), of whom four (4) are ASC members.

a. Relationship with outside directors

Mr. Naoshi Ban has actively given advice and opinions at Board of Directors' meetings, etc., as an outside director based on his extensive management experience and his broad insights. The Company has appointed him again as an outside director and ASC member, judging that he would contribute to increasing the Group's corporate value by utilising his experience, etc. in the supervision and audit of the Group. Furthermore, since he fulfils the requirements as prescribed in the below mentioned "Independence Criteria for Outside Directors," the Company appointed Mr. Ban as an independent director. Mr. Ban has no special interests in the Company.

Mr. Kenjiro Nakano has actively given advice and opinions at Board of Directors' meetings, etc., as an outside director based on his extensive experience and his broad insights as the manager of a financial institution. The Company has appointed him again as an outside director and ASC member, judging that he would contribute to increasing the Group's corporate value by utilising his experience, etc. in the supervision and audit of the Group. Mr. Nakano is a former director of Sumitomo Mitsui Banking Corporation, which is one of the main banks of the Company. However, he has never served with the bank, even as an advisor, since his retirement 11 years ago

in June 2010. Thus, he fulfils the requirements as prescribed in the below mentioned “Independence Criteria for Outside Directors,” and the Company appointed Mr. Nakano as an independent director. Mr. Nakano has no special interests in the Company. Mr. Nakano is a Chairman of Keihanshin Building Co., Ltd. There are no particular conflicts of interest that require disclosure between Keihanshin Building Co., Ltd. and the Company.
Ms. Mayumi Ishihara has actively given advice and opinions at Board of Directors’ meetings, etc., as an outside director based on her professional knowledge, experience and broad insights as an attorney-at-law, although she has no experience in corporate management except as an outside director. The Company has appointed her again as an outside director and ASC member, judging that she would contribute to increasing the Group’s corporate value by utilising her experience, etc. in the supervision and audit of the Group. Since she fulfils the requirements as prescribed in the below mentioned “Independence Criteria for Outside Directors,” the Company appointed Ms. Ishihara as an independent director. Ms. Ishihara has no special interests in the Company.
Ms. Nobuko Sekiguchi has extensive experience, accomplishments, and knowledge, etc. of accounting, corporate planning, and personnel system reforms in operating companies and management consulting. The Company has appointed her as an outside director and ASC member, judging that she would contribute to increasing the Group’s corporate value by drawing on these attributes in the supervision and audit of the Group. Since she fulfils the requirements as prescribed in the below mentioned “Independence Criteria for Outside Directors,” the Company appointed Ms. Sekiguchi as an independent director. Ms. Sekiguchi has no special interests in the Company.

For details regarding shareholdings of each outside director, please see “(i) Officers.”

The Company has established the independence criteria for outside directors as follows:

Independence Criteria for Outside Directors

To maintain their independence from the Company, outside directors of the Company shall not meet any of the following criteria.

(1) A person for whom the Company and its subsidiaries (collectively, “the Group”) is a principal business partner (Note 1) or an executing person (“the executing person”) of such party, including a managing director, an executive officer, a person who has similar authority, a manager or an employee.
(2) A principal business partner (Note 2) of the Group or the executing person of such party.
(3) An expert such as an attorney-at-law, a certified public accountant, a certified tax accountant or a consultant who receives a certain amount (Note 3) of money or other property from the Group in addition to compensation for being a director and/or corporate auditor.
(4) A person who belongs to the audit firm which is the statutory accounting auditor of the Group and conducts audit work for the Group.
(5) A major shareholder of the Company (directly or indirectly holding 10% or more of the total voting rights) or the executing person of such major shareholder.
(6) An executing person of a company of which the Group is the major shareholder.
(7) In cases in which the Group’s executive director, a director who is a full-time ASC member or a full-time

corporate auditor also holds the post of outside director or outside auditor of other companies, the executing person of such companies.

(8) The executing person of Hankyu Hanshin Toho Group (including the Group).

(9) A person receiving more than a defined amount (Note 4) of donations from the Group or, in cases in which the person is a corporation or an association, the executing person of the party.

(10) Any person identified in any of (1) to (9) above in the past five years or any executing person of the Group in the past ten years.

(11) Any person whose spouse or relatives within the second degree of kinship are identified in any of (1) to (10) above (limited to key persons (Note 5), excluding above (3) and (4)).

(12) Any person with whom any special circumstances exist that would result in a conflict of interest with the Company.

Notes:

1. “A person for whom the Group is a principal business partner” means a party offering products and/or services to the Group whose total amount of transactions with the Group in the previous fiscal year exceeds the greater of ¥100 million or 2% of the consolidated sales of the party.
2. “A principal business partner” means (a) a party to whom the Group offers products and/or services whose total amount of transactions with the Group in the previous fiscal year exceeds 2% of the consolidated sales of the Company and (b) a party to whom the Group owes liabilities as loans of 2% or more of the consolidated total assets of the Company as of the previous fiscal year end.
3. “Certain amount” means (a) ¥10 million a year of compensation (except director’s remuneration) received from the Group in the previous fiscal year in cases in which the expert is an individual offering services to the Group or (b) the total amount of compensation received from the Group in the previous fiscal year reaches 2% of the total revenue of a party in cases in which the expert belongs to a party such as a corporation or association offering services to the Group.
4. “Defined amount” means ¥10 million a year in the previous fiscal year.
5. “Key person” means an executing person with relevant authority as a director, operating officer, executive officer and/or senior manager.

b. Main Activities of Outside Directors During the Reporting Period

Classification	Name	Main Activities
Director who is an ASC member	Naoshi Ban	Attended all 11 Board of Directors' meetings (excluding written resolutions) and all 12 ASC meetings held during the reporting period to raise issues from a wide range of perspectives, such as managerial challenges for each business, administration of subsidiaries and ideal functions as a holding company, giving his opinions on measures and asking questions based on his extensive management experience of having served as a President and Chairman of a business enterprise. In addition, he chaired the Nominating and Compensation Advisory Committee, a voluntary committee, offering appropriate advice at the committee's meetings and striving to improve the transparency and objectivity for personnel affairs and compensation of the management.
Director who is an ASC member	Kenjiro Nakano	Attended all 11 Board of Directors' meetings (excluding written resolutions) and all 12 ASC meetings held during the reporting period to raise issues on matters including management strategies of the holding company and each business, finance and management administration after the business restructuring, giving his opinions on measures and asking questions based on his extensive management experience as an executive of a financial institution. In addition, he served as a member of the Nominating and Compensation Advisory Committee, a voluntary committee, offering appropriate advice at the committee's meetings and striving to improve the transparency and objectivity for personnel affairs and compensation of the management.
Director who is an ASC member	Mayumi Ishihara	Attended all 11 Board of Directors' meetings (excluding written resolutions) and all 12 ASC meetings held during the reporting period not only to make remarks on governance, compliance and legal risks in the business based on her knowledge and experience as an attorney, but also to raise issues from perspectives including a consumer perspective and a perspective on diversity, giving her opinions on measures and asking questions.

Director who is an ASC member	Nobuko Sekiguchi	Attended all nine (9) Board of Directors' meetings (excluding written resolutions) and all nine (9) ASC meetings held during the reporting period after her appointment as a director to raise issues on various challenges with a particular focus on personnel affairs and IT strategies based on her experience at business enterprises and in consulting work, giving her opinions on measures and asking questions. In addition, she attended meetings for business reports from executive divisions such as the Finance Office and the Management Planning Office of the Company.

(3) Status of Audits

(i) Internal audits and ASC's audits

The Company has five (5) ASC members, consisting of four (4) outside directors and one (1) director (full-time ASC member). The Company assigns professionals with corporate management experience and specialised knowledge of law and other subjects as outside directors. Mr. Toshimitsu Konishi, who has substantial knowledge of finance and accounting who has served as an accounting manager in the Company for approximately 30 years has been assigned as the full-time ASC member. The full-time ASC member is assigned as an ASC member with the authority to be reported to and to investigate. In addition, 13 assistant employees, consisting of six (6) dedicated auditors, each of whom serves as corporate auditor of four (4) to five (5) subsidiaries besides administrative operation of the ASC, and seven (7) persons taking responsibility of internal audit function, assist the full-time ASC member at the ASC Office.

The office in charge of financial reporting, as stipulated in the Financial Instruments and Exchange Act (J-SOX) (seven (7) members), is established to secure the reliability of financial reporting. They work to strengthen the audit function by making proposals for improvements based on regular interviews and on-site audits and assessing internal controls in financial reporting and in business processes.

With regard to activities of the ASC, the ASC developed audit plans and implemented focused audits and ordinary audits in accordance with the standards for ASC's audits, etc., the standards for audits of internal control system and others. Outside directors who are ASC members attended Board of Directors' meetings and regular meetings with representative directors, and gave their opinions and asked questions as necessary from the standpoint of attorneys and specialists with extensive business management experience. A full-time ASC member attends the monthly "Group Management meeting" and the "Group Compliance Committee meeting," which are held as needed. The full-time ASC member expresses his opinions at these meetings as necessary and inspected final decision reports on key matters as well as the minutes of the meetings, and heard reports regarding the execution of operations directly from internal control divisions.

The ASC meeting was held 12 times during the reporting period. Of these, Mr. Toshimitsu Konishi, Mr. Naoshi Ban, Mr. Kenjiro Nakano and Ms. Mayumi Ishihara attended all 12 meetings, and Ms. Nobuko Sekiguchi attended all nine meetings held after her appointment as a director who is an ASC member. At each meeting, the full-time ASC member spent approximately two (2) hours making an explanation on the content of agendas for the Board of Directors' meeting and a detailed report on the status of audits. Concurrently, a consensus on the ASC's opinion in consideration of the supervisory function over executives was formed through discussions about management issues, and the ASC provided advice and recommendations on the role of the holding company to representative directors for embodiment of the management philosophy as necessary.

In addition, two (2) outside directors who are ASC members have become the Chairman and a member of the voluntary Nominating and Compensation Advisory Committee, and at ASC meetings, they discussed policy on determining nominations and remuneration to consolidate their opinions, as well as discussing an ideal organisational structure that enables practice of aggressive governance, and providing advice and recommendations to representative directors as necessary.

Regarding the auditing of subsidiaries, the full-time ASC member concurrently serves as a corporate auditor of Hankyu Hanshin Department Stores, Inc. and Izumiya Co., Ltd., the core subsidiaries, while the standing corporate

auditor or dedicated staff members who are assistant employees assume the position of corporate auditors of other subsidiaries, leading to augmentation of the reporting system to the full-time ASC member by closely monitoring the site through auditing visits. At the same time, these corporate auditors work to perform more effective audits by holding Group Board of Corporate Auditors' meetings where appropriate and verifying the progress of audit plans through individual opinion exchanges with the full-time ASC member and corporate auditors of subsidiaries.
Regarding the coordination with the internal audit division, the full-time ASC member weekly receives a report on assessment of internal control concerning financial reporting and internal control concerning business processes from the function in charge of J-SOX, which was established to secure the reliability of financial reporting, and a report on the method and results of business audits from an assistant employee in charge of internal audits who coordinates with the internal audit function of major companies while conducting activities centred on business audits of Hankyu Hanshin Department Stores.
In terms of liaison with the independent auditors, the ASC members maintained a close exchange of opinions. For example, they exchange opinions about key audit matters when drafting the audit plan, while the full-time ASC member confirms the progress of the audit procedures and exchanges opinions on issues in audits once a month in principle, and at ASC meetings, close coordination is maintained through discussion about major issues in auditing and the audit procedures on a quarterly basis.

(ii) Accounting audits

a. Name of the auditing firm
KPMG AZSA LLC.

b. Continuous auditing period
46 years
This number of years covers the period from the establishment of KPMG AZSA LLC.'s predecessor, Shinwa Audit Corporation, but a possibility remains that the continuous auditing period exceeds this period due to the remarkable difficulty in conducting an investigation.

c. Certified public accountants who executed the audits
Mr. Motoharu Iyomasa, Mr. Koji Narumoto and Ms. Aki Yuge

d. Composition of assistants with the audits
18 other certified public accountants and 24 other staff members

e. Selection policy and evaluation of auditing firm
In appointing an auditing firm, the Company takes into account the independence of the independent auditors, status of quality management, appropriateness of audit execution structure, ample auditing experience in other industries and companies, enriched relevant services, appropriateness of audit fees, and others.
If the independent auditors fall under any of the matter set forth in each item of Article 340, paragraph (1) of the Companies Act, the ASC dismisses the independent auditors. In addition, if quality and efficiency of audits might

be lowered and there is no prospect for improvement in consideration of the independent audit's number of years of continuous audits, audit fees and others, or if the ASC judges, in light of assessment of the independent auditors, that a change of the independent audit is reasonable to further increase the appropriateness of audits, the ASC determines the content of proposal for dismissal or non-reappointment of the independent auditors to be submitted to a General Shareholders' Meeting.

Based on these policies, the ASC deliberated on the appropriateness of the independent auditors based on an evaluation of their score on 20 evaluation items following the "Practical Guide for Audit & Supervisory Board Members, etc., Regarding Evaluation and Formulation of Selection Standards for Accounting Auditors" issued by the Japan Audit & Supervisory Board Members Association. As a result, the ASC judged the selection of KPMG AZSA LLC. as the independent auditor to be appropriate.

(iii) Fees paid to independent auditors

a. Details of fees paid to certified public accountants, etc.

Classification	For the year ended 31st March 2020		For the year ended 31st March 2021	
	Audit fees (millions of yen)	Fees for non-audit services (millions of yen)	Audit fees (millions of yen)	Fees for non-audit services (millions of yen)
The Company	63	7	67	—
Consolidated subsidiaries	156	—	142	—
Total	220	7	210	—

The details of non-audit services for which the Company paid fees to certified public accountants consisted of "financial due diligence services" for the year ended 31st March 2020.

b. Details of fees paid to certified public accountants, etc. and their network (KPMG International) (excluding a.)

Classification	For the year ended 31st March 2020		For the year ended 31st March 2021	
	Audit fees (millions of yen)	Fees for non-audit services (millions of yen)	Audit fees (millions of yen)	Fees for non-audit services (millions of yen)
The Company	—	—	—	—
Consolidated subsidiaries	11	—	11	—
Total	11	—	11	—

c. Other significant fees paid

For the year ended 31st March 2020

Suzhou Izumiya Co., Ltd., H2O (China) Investment Co., Ltd. and Suzhou Izumiya Supermarkets Co., Ltd., consolidated subsidiaries of the Company, paid ¥11 million in fees to a member firm of KPMG to which certified public accountants acting as the Company's independent auditors belong.

For the year ended 31st March 2021

Suzhou Izumiya Co., Ltd., H2O (China) Investment Co., Ltd. and Suzhou Izumiya Supermarkets Co., Ltd., consolidated subsidiaries of the Company, paid ¥11 million in fees to a member firm of KPMG to which certified public accountants acting as the Company's independent auditors belong.

d. Policy to determine audit fees

Audit fees to independent auditors are determined based on the items to be audited, the contents and procedures of the audits, the number of days required for audits and the appropriateness of the audit fees considering the scale and characteristics of the business of the Company.

e. Reasons for consent to the independent auditors' remuneration by the ASC

In accordance with the "Practical Guide for Cooperation with Accounting Auditors" issued by the Japan Audit & Supervisory Board Members Association, the Company's ASC examined the number of hours required for audits in the past, evaluated audit results, reviewed fee trends in the past and compared the fees with those paid by other companies in the same business. The ASC also had an interview with the independent auditors to evaluate their credentials and examined the appropriateness and reasonableness of fee calculations and the basis of estimates, including the number of hours and staff estimated in the audit planning and audit procedures for significant audit issues. As a result, the Company's ASC agreed to the amounts of fees to the independent auditors.

(4) Compensation for Directors

(i) Compensation paid to directors

Classification	Total compensation (millions of yen)	Total compensation by type (millions of yen)			Number of directors
		Basic compensation (fixed compensation)	Performance-based compensation (bonus)	Non-monetary compensation (stock option based compensation)	
Directors (excluding ASC members) (excluding outside directors)	137	126	—	10	6
Directors (ASC members) (excluding outside directors)	26	25	—	0	1
Outside directors	34	33	—	1	4

Note: Non-monetary compensation

The Company grants stock option-based compensation as non-monetary compensation. There are two (2) types of stock option-based compensation, namely the stock option-based compensation with continuous service conditions, for which all directors, including ASC members, are eligible, and the stock option-based compensation with performance-based conditions, for which executive directors are eligible. The performance-based indicators for the stock option-based compensation with performance-based conditions (allotment in July 2019 and July 2020) shall be as follows, and will be determined based on business results in the fiscal year ending 31st March 2022. As consolidated ordinary income is one of the target income indicators, and consolidated ROIC is an indicator of capital efficiency, these two indicators have been chosen.

Performance-based criteria for fiscal 2019 to 2020

Indicator	Target for fiscal 2021	Weight
(i) Consolidated ordinary income	¥25.0 billion	50%
(ii) Consolidated ROIC	4.0%	50%

Because the Company resolved to withdraw the mid-term plan, Phase 2 of Stage II in the GP 10 Plan (fiscal year ended 31st March 2020 to fiscal year ending 31st March 2022), at the Board of Directors' meeting held on 30th October 2020, the Company reversed all of the expenses for the stock option-based compensation with performance-based conditions. Accordingly, the entire amount of non-monetary compensation described in the table of "(i) Compensation paid to directors" is only for the stock option-based compensation with continuous service conditions.

(ii) Matters regarding Policy on Determining Compensation for Directors

1) Method to determine policy on determining individual compensation for directors

At the Board of Directors' meeting held on 25th February 2021, the Company decided on the Policy on Determining Individual Compensation for Directors (the "Decision-making Policy").

2) Outline of the Decision-making Policy

Compensation for the Company's directors is designed based on the views on compensation for directors stipulated in the basic principles regarding corporate governance as well as the following basic policy. The compensation is comprised of monthly basic compensation, an annual bonus that reflects single-year performance and other factors, stock option-based compensation with continuous service conditions, and stock option-based compensation with performance-based conditions. These types of compensation are combined according to each director's expected duties.

[Basic policy]

・ The plan should contribute to the sustainable growth and to the improvement of medium- to long-term corporate value of the Company group.
・ The plan should motivate the executive directors to achieve the objectives of the mid-term plan.
・ The plan should help the Company group secure human resources who are capable of carrying out its mission and of achieving sustainable growth.
・ The plan should facilitate shared awareness with shareholders as well as an outlook that gives weight to the shareholder.

[Types of compensation, timing of payment and recipients]

		Timing of payment	Executive Directors, etc.	Non-executive Directors
Stock compensation	Performance-based stock options	Annually (July)	○	–
	Continuous service-based stock options	Annually (July)	○	○
Cash compensation	Bonus (performance-based compensation)	Annually (June)	○	–
	Basic compensation (fixed compensation)	Monthly	○	○

* Executive directors and executive officers are referred to as "Executive Directors, etc." and directors other than Executive Directors, etc., such as outside directors and directors who are ASC members, are referred to as "Non-executive Directors."

Policy on determining the ratio of each type of compensation against individual compensation for directors

Regarding compensation for Executive Directors, etc., approximately 50% is basic compensation, which is a fixed compensation, and approximately 50% is the annual bonus and stock compensation, which are types of compensation linked to business results and stock prices.

Amount of individual compensation or policy on determining calculation method thereof

<Basic compensation>

Basic compensation is set in accordance with individual job responsibility and position. For Executive Directors, etc., basic compensation is revised every April in accordance with an assessment for previous fiscal year on the basis of the compensation table according to stages of the amount of consolidated operating income. To Non-executive Directors, compensation shall be paid in accordance with individual role.

<Bonus>

Bonuses shall be compensation paid according to consolidated operating results for one fiscal year, determined in accordance with position and assessment based on a compensation table corresponding to the level of consolidated operating income. In addition, profit attributable to owners of parent and other factors shall be considered. Approval of the total amount of bonuses for directors shall be obtained at a General Shareholders' Meeting each year. Because consolidated operating income and profit attributable to owners of parent are target indicators for single-year performance, they have been chosen as indicator for performance-based compensation.

<Stock option-based compensation>

Stock compensation shall be the following two (2) types of stock options:

・ Stock option-based compensation with continuous service conditions

Subscription rights to shares, which can be exercised by any eligible person for allotment of the subscription rights to shares after losing any position as officer, such as director (including ASC member), corporate auditor and executive officer of the Company and its subsidiaries (but provided that the loss is for retirement due to expiration of the terms of office or any other valid reason accepted by the Company), are granted to Executive Directors, etc. and Non-executive Directors in accordance with the position each year.

・ Stock option-based compensation with performance-based conditions

In terms of management indicators targeted in the mid-term plan and other indicators predetermined by the Company's Board of Directors (such as consolidated net sales, each stage of income, ROE and ROIC), the number of exercisable units is determined within the range of 0 to 100% of allotted subscription rights to shares in accordance with achievement levels of the indicators in the final fiscal year for the mid-term plan, and subscription rights to shares, which can be exercised after losing any position as officer, such as director (including ASC member), corporate auditor and executive officer of the Company and its subsidiaries (but provided that the loss is for retirement due to expiration of the terms of office or any other valid reason accepted by the Company), are granted to Executive Directors, etc. in accordance with the position each year.

Method of determining individual compensation

As for compensation for directors, etc., the Board of Directors decides the agenda for the General Shareholders' Meeting and individual amounts of compensation after consideration by the Nominating and Compensation

Advisory Committee. As for compensation for directors who are ASC members, individual amounts are determined through discussion by directors who are ASC members.

Reasons the Board of Directors determined that individual compensation for directors pertaining to the current fiscal year is in line with the decision-making policy

The Nominating and Compensation Advisory Committee, a majority of whose members are independent outside directors, conducts deliberation and advises the Board of Directors with regard to individual compensation for directors, which in turn makes a resolution based on the advice.

In deliberating on individual compensation for directors, the Nominating and Compensation Advisory Committee considers factors such as the level of compensation for other executives and employees within the industry and the Company, while evaluating whether such individual compensation is consistent and in line with the decision-making policy. In addition, the Board of Directors also verifies that the individual compensation for directors is in line with the decision-making policy before deciding on individual compensation.

The maximum compensation based on a resolution of the General Shareholders' Meeting is outlined below.

a. At the 97th Ordinary General Shareholders' Meeting held on 22nd June 2016, the total amount of basic compensation for directors excluding directors who are ASC members was set at a maximum of ¥300 million per year (of which a maximum of ¥50 million is for outside directors), and basic compensation for directors who are ASC members was set at a maximum of ¥90 million per year. As of the conclusion of the 97th Ordinary General Shareholders' Meeting, the number of directors was eight (8), including one (1) outside director, and the number of directors who are ASC members was four (4).

b. Bonus amounts are decided at a Shareholders' Meeting each time they are paid.

c. At the 102nd Ordinary General Shareholders' Meeting held on 22nd June 2021, it was resolved as described below that stock option based compensation would be based on a different framework from the monthly compensation described above.

- Total amount of compensation for directors (excluding directors who are ASC members)
  It was resolved that the upper limit will be set at ¥129 million per year (including ¥9 million for outside directors). Of the amount, the upper limit of ¥93 million per year will be set for continuous service-based stock options (including ¥9 million for outside directors) and the upper limit of ¥36 million per year will be set for performance-based stock options. As of the conclusion of the 102nd Ordinary General Shareholders' Meeting, the number of directors excluding directors who are ASC members was five (5), none of whom were outside directors. Although outside directors other than directors who are ASC members were not appointed at the time of the resolution, the amount of compensation was set with an eye to the possibility of future appointment.
- Total amount of compensation for directors who are ASC members
  It was resolved that the upper limit will be set at ¥22.5 million per year. As of the conclusion of the 102nd Ordinary General Shareholders' Meeting, the number of directors who are ASC members was five (5).

(5) Holding Status

(i) Criteria and idea for division of investment securities

With regard to division of investment securities held for portfolio investment purposes and those held for other than portfolio investment purposes, the Company classifies investment securities which are held for the purpose of gain on sale as portfolio investment purposes and those which are held for the purpose of building good relationships with business partners and related parties such as business alliance partners and contributing to smooth promotion of the Company group's businesses and improvement of corporate value over the medium to long term as purposes other than portfolio investment purposes.

In principle, as its policy, the Company does not hold investment securities which are held for portfolio investment purposes.

(ii) Investment securities which are held for other than portfolio investment purposes

a. Holding policy and method for verification of reasonableness of holdings as well as details of verification by the Board of Directors, etc., in relation to whether or not the holding of individual stock is appropriate

- When the Company considers that holding the stock helps build a good relationship with business partners and related parties such as business alliance partners and contributes to smooth promotion of the Company group's businesses and improvement of corporate value over the medium to long term, it may hold the stock of the business partner, etc., as a policy-holding shares.
- The Company judges whether or not to exercise voting rights for stocks held as a policy-holding shares, for each proposal from a viewpoint of whether doing so contributes to improvement of the Company group's corporate value over the medium to long term, also taking into account the holding purpose.
- If a company that holds stock of the Company as a policy-holding shares (hereinafter, the "policy-holding shareholder") expresses its intention to sell that stock, the Company shall not perform actions such as indicating a reduction in transactions with this company as a means for preventing the sale.
- For transactions with policy-holding shareholders, economic reasonableness of the transactions is fully verified so that any transactions that may harm the common interests of the Company and shareholders are not conducted.
- The Company has been pushing forward reduction in stocks of which the holding necessity is considered low. The Board of Directors will continue to verify holding purposes, details of transactions, dividend yields, holding risks and other matters, and consider selling stocks of which the holding necessity is considered low in view of market trends and other factors, also taking into account the Company's capital cost.

b. Number of investment securities and balance sheet value

	Number of different stocks (stock)	Total amount of balance sheet value (millions of yen)
Unlisted shares	26	4,742
Shares other than unlisted shares	15	83,216

Stocks of which the number of shares increased in the fiscal year ended 31st March 2021.

	Number of different stocks (stock)	Total amount of acquisition cost related to the increase in the number of shares (millions of yen)	Reason for the increase in the number of shares
Unlisted shares	1	211	To strengthen business management relationship
Shares other than unlisted shares	1	8	To strengthen business management relationship

Stocks of which the number of shares decreased in the fiscal year ended 31st March 2021.

	Number of different stocks (stock)	Total amount of sale value related to the decrease in the number of shares (millions of yen)
Unlisted shares	—	—
Shares other than unlisted shares	—	—

c. Information on the number of shares, balance sheet value, etc., of specified investment securities and shares deemed held by stock

Specified investment securities

Stock	For the year ended 31st March 2021 Number of shares Balance sheet value (millions of yen)	For the year ended 31st March 2020 Number of shares Balance sheet value (millions of yen)	Purpose of holding, quantitative effects of holding, and reason for the increase in the number of shares	Whether or not the stock of the Company is held
Toho Co., Ltd.	13,664,280 61,352	13,664,280 45,092	(Purpose of holding) To strengthen relationship with the Hankyu Hanshin Toho Group from a group-wide perspective (Method of verifying reasonableness of holding) Based on the relationship of the Hankyu Hanshin Toho Group, the Company has judged that there are positive effects of holding the stock.	None
Takashimaya Co., Ltd.	8,887,000 10,495	8,887,000 8,647	(Purpose of holding) To strengthen relationship between both companies through business alliance, mainly in the Department Store Business segment (Method of verifying reasonableness of holding) The Company has determined that there are certain positive effects on promotion of businesses, such as a joint effort for products in the business alliance.	Yes
Kansai Super Market Ltd.	3,200,000 3,593	3,200,000 3,264	(Purpose of holding) To strengthen relationship between both companies through business alliance, mainly in the Supermarket Business segment (Method of verifying reasonableness of holding) The Company has considered that there are positive effects of holding in promotion of the Company group’s business strategy, such as introduction of the Company group’s joint point system, sale of the Company group’s products, etc., through the business alliance.	Yes
SRS HOLDINGS CO., LTD.	2,557,404 2,196	2,557,404 2,309	(Purpose of holding) To strengthen the business management relationship from a group-wide perspective (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company, the Company has considered that there are positive effects of holding the stock.	None

Stock	For the year ended 31st March 2021 Number of shares Balance sheet value (millions of yen)	For the year ended 31st March 2020 Number of shares Balance sheet value (millions of yen)	Purpose of holding, quantitative effects of holding, and reason for the increase in the number of shares	Whether or not the stock of the Company is held
Mitsubishi UFJ Financial Group, Inc.	3,012,740 1,782	3,012,740 1,214	Although the Company held the stock for group-wide financial policy reasons, the Company is not holding any shares as of the date of filing of this report because it sold all the shares by the filing date.	None (Note)
Kato Sangyo Co., Ltd.	363,300 1,298	363,300 1,237	(Purpose of holding) To strengthen the business management relationship, mainly in the Supermarket Business segment (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company (transaction for purchase of goods), the Company has considered that there are positive effects of holding the stock.	Yes
Asahi Group Holdings, Ltd.	217,360 1,013	217,360 762	Although the Company held the stock to strengthen the business management relationship, mainly in the Department Store Business segment, the Company is not holding any shares as of the date of filing of this report because it sold all the shares by the filing date.	None (Note)
Sumitomo Mitsui Financial Group, Inc.	120,528 482	120,528 316	Although the Company held the stock for group-wide financial policy reasons, the Company is not holding any shares as of the date of filing of this report because it sold all the shares by the filing date.	None (Note)
Umenohana Co., Ltd.	374,500 422	374,500 540	(Purpose of holding) To strengthen relationship between both companies through business alliance, mainly in the Department Store Business segment (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company (transaction for purchase of goods), the Company has considered that there are positive effects of holding the stock.	None
Joshin Denki Co., Ltd.	56,000 176	56,000 116	Although the Company held the stock to strengthen the business management relationship from a group-wide perspective, the Company is not holding any shares as of the date of filing of this report because it sold all the shares by the filing date.	None

Stock	For the year ended 31st March 2021	For the year ended 31st March 2020	Purpose of holding, quantitative effects of holding, and reason for the increase in the number of shares	Whether or not the stock of the Company is held
	Number of shares	Number of shares		
	Balance sheet value (millions of yen)	Balance sheet value (millions of yen)		
cocokara fine Inc.	20,200	20,200	(Purpose of holding) To strengthen relationship between both companies through business alliance, mainly in the Supermarket Business segment (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company, the Company has considered that there are positive effects of holding the stock.	None (Note)
	171	113		
Sumitomo Mitsui Trust Holdings, Inc.	25,370	25,370	Although the Company held the stock for group-wide financial policy reasons, the Company is not holding any shares as of the date of filing of this report because it sold all the shares by the filing date.	None (Note)
	97	79		
Onward Holdings Co., Ltd.	193,417	164,372	(Purpose of holding) To strengthen the business management relationship, mainly in the Department Store Business segment (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company (transaction for purchase of goods), the Company has considered that there are positive effects of holding the stock. (Reason for the increase in shares) This is because the Company has participated in the business partners shareholding association and additionally acquires shares on a regular basis.	Yes
	60	78		
Toyo Seikan Group Holdings, Ltd.	33,000	33,000	Although the Company held the stock to facilitate business activity, mainly in the Department Store Business segment, the Company is not holding any shares as of the date of filing of this report because it sold all the shares by the filing date.	None
	43	40		
Tokyo Rakutenchi Co., Ltd.	5,500	5,500	(Purpose of holding) To strengthen relationship with the Hankyu Hanshin Toho Group from a group-wide perspective (Method of verifying reasonableness of holding) Based on the relationship of the Hankyu Hanshin Toho Group, the Company has judged that there are positive effects of holding the stock.	None
	26	22		

* For stocks for which it is difficult to describe quantitative effects of holding, the method of verifying reasonableness of

holding has been provided.

Note: A Group company holds stock of the Company

(iii) Investment securities which are held for portfolio investment purposes

None

(iv) Investment securities whose purpose for holding was changed from portfolio investment purposes to purposes other than portfolio investment purposes during the fiscal year ended 31st March 2021

None

(v) Investment securities whose purpose for holding was changed from purposes other than portfolio investment purposes to portfolio investment purposes during the fiscal year ended 31st March 2021

None

Five-Year Summary

	Millions of yen				
Years ended 31st March	2017	2018	2019	2020	2021
For the year:					
Net sales	¥901,221	¥921,871	¥926,872	¥897,289	¥739,198
Cost of sales	637,837	655,646	660,636	641,253	527,294
Gross profit	263,384	266,224	266,235	256,035	211,903
Selling, general and administrative expenses	240,841	243,459	245,813	244,863	216,342
Interest expenses	1,081	1,003	728	772	848
Profit before income taxes	20,005	23,219	8,050	(9,337)	(24,030)
Profit attributable to owners of parent	14,298	14,636	2,162	(13,150)	(24,791)
Comprehensive income	16,192	21,380	3,592	(30,174)	(11,005)
Per share information (in yen and U.S. dollars)					
Basic profit per share	115.84	118.54	17.50	(106.38)	(200.45)
Diluted profit per share	115.28	117.90	17.39	-	-
Cash dividends	40.00	40.00	40.00	40.00	25.00
At year-end:					
Inventories	¥35,292	¥35,295	¥33,919	¥29,687	¥23,337
Property, plant and equipment (book value)	258,961	280,661	284,860	273,165	261,386
Total assets	639,305	659,582	663,335	586,904	625,945
Long-term debt	118,593	106,931	136,718	118,613	142,133
Shareholders' equity	232,786	242,390	239,755	221,732	192,763
Ratio analysis:					
Gross profit / Net sales (%)	29.23	28.88	28.72	28.53	28.67
Profit (loss) before income taxes / Net sales (%)	2.22	2.52	0.87	(1.04)	(3.25)
Profit (loss) attributable to owners of parent / Net sales (%)	1.59	1.59	0.23	(1.47)	(3.35)
Profit (loss) attributable to owners of parent / Total assets (%)	2.32	2.25	0.33	(2.10)	(4.09)
Profit (loss) attributable to owners of parent / Shareholders' equity (%)	6.27	6.16	0.90	(5.70)	(11.96)
Shareholders' equity / Total assets (%)	36.41	36.75	36.14	37.78	30.80
Long-term debt / Shareholders' equity (times)	0.51	0.44	0.57	0.53	0.74
Net sales / Inventories (times)	25.54	26.12	27.33	30.22	31.67
Net sales / Total assets (times)	1.41	1.40	1.40	1.53	1.18

Note 1. U.S. dollar amounts represent translations of yen amounts at the rate of ¥111 to U.S.$1.00.

2. Amounts less than one million yen and one thousand dollars are rounded down.

3. As for "Profit attributable to owners of parent / Total assets," the Company uses the average of total assets at the beginning and end of the year.

4. As for "Profit attributable to owners of parent / Shareholders' equity," the Company uses the average of shareholders' equity at the beginning and end of the year.

5. The “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, issued on 16th February 2018, “Partial Amendments”) have been applied from the beginning of the fiscal year ended 31st March 2019.

The respective amount for the previous year was reclassified to conform to the current year’s presentation.

Consolidated Balance Sheets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

As of 31st March, 2020 and 2021	Millions of yen 2020	2021
Assets		
Current assets		
Cash and deposits (Notes 12 and 14)	¥ 25,958	¥ 49,991
Notes and accounts receivable - trade (Note 14)	44,445	54,385
Merchandise and finished goods	27,732	21,546
Work in process	348	118
Raw materials and supplies	1,607	1,673
Accounts receivable - other (Note 14)	7,618	7,025
Other	4,740	4,811
Allowance for doubtful accounts (Note 14)	(335)	(261)
Total current assets	112,116	139,291
Non-current assets		
Property, plant and equipment (Notes 8 and 26)		
Buildings and structures	308,287	297,009
Accumulated depreciation	(190,311)	(195,136)
Buildings and structures, net	117,976	101,873
Machinery, equipment and vehicles	7,956	7,726
Accumulated depreciation	(4,992)	(5,186)
Machinery, equipment and vehicles, net	2,964	2,539
Land	139,351	139,126
Construction in progress	1,248	8,684
Other	47,145	42,867
Accumulated depreciation	(35,520)	(33,706)
Other, net	11,624	9,161
Property, plant and equipment, net	273,165	261,386
Intangible assets		
Goodwill	3,305	2,704
Other	15,862	14,024
Total intangible assets	19,168	16,729
Investments and other assets		
Investment securities (Notes 8, 14 and 15)	95,841	114,748
Long-term loans receivable	7,026	11,253
Guarantee deposits (Notes 8 and 24)	70,425	70,029
Net defined benefit asset (Note 17)	60	1,898
Deferred tax assets (Note 19)	10,008	11,453
Other	2,020	2,000
Allowance for doubtful accounts	(2,927)	(2,845)
Total investments and other assets	182,454	208,538
Total non-current assets	474,788	486,653
Total assets	¥ 586,904	¥ 625,945

See accompanying notes.

	Millions of yen	
	2020	2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade (Notes 8 and 14)	¥ 43,917	¥ 48,996
Short-term loans payable (Notes 14 and 25)	15,000	-
Current portion of long-term loans payable (Notes 8, 14 and 25)	18,100	46,414
Accounts payable - other (Note 14)	21,976	26,890
Lease obligations (Notes 13 and 25)	910	910
Income taxes payable (Note 19)	2,267	1,678
Gift certificates	27,872	28,077
Provision for bonuses	3,953	3,284
Provision for directors' bonuses	90	23
Provision for loss on store closings	78	348
Provision for point card certificates	1,951	1,854
Asset retirement obligations (Note 20)	90	940
Other (Note 8)	21,930	25,113
Total current liabilities	158,139	184,531
Non-current liabilities		
Bonds payable (Notes 14 and 25)	20,000	20,000
Long-term loans payable (Notes 14 and 25)	98,613	122,133
Deferred tax liabilities (Note 19)	17,108	23,805
Deferred tax liabilities for land revaluation (Note 8)	266	266
Provision for directors' retirement benefits	164	172
Provision for redemption of gift certificates	4,233	4,635
Net defined benefit liability (Note 17)	13,993	12,839
Long-term accounts payable - other (Note 17)	287	158
Lease obligations (Notes 13 and 25)	13,806	12,883
Long-term guarantee deposited	9,632	9,530
Asset retirement obligations (Note 20)	3,165	3,193
Other (Note 8)	2,858	2,517
Total non-current liabilities	184,131	212,136
Total liabilities	342,270	396,667
Net assets (Note 11)		
Shareholders' equity		
Capital stock: Common stock, Authorised - 150,000,000 shares, Issued - 125,201,396 shares in 2020 and 2021	17,796	17,796
Capital surplus	92,650	92,633
Retained earnings	114,184	85,065
Treasury shares - 1,558,219 shares in 2020 - 1,469,808 shares in 2021	(2,899)	(2,732)
Total shareholders' equity	221,732	192,763
Accumulated other comprehensive income (Note 10)		
Valuation difference on available-for-sale securities	25,435	38,668
Deferred gains or losses on hedges	-	-
Revaluation reserve for land (Note 8)	124	124
Foreign currency translation adjustment	(1,128)	(960)
Remeasurements of defined benefit plans	(2,846)	(2,462)
Total accumulated other comprehensive income	21,584	35,370
Subscription rights to shares	1,312	1,138
Non-controlling interests	4	4
Total net assets	244,634	229,277
Total liabilities and nets assets	¥ 586,904	¥ 625,945

See accompanying notes.

Consolidated Statements of Operations

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen	
Years ended 31st March, 2020 and 2021	2020	2021
Net sales	¥ 897,289	¥ 739,198
Cost of sales (Note 9)	641,253	527,294
Gross profit	256,035	211,903
Selling, general and administrative expenses		
Salaries and allowances	75,738	65,032
Rent expenses	40,286	36,365
Other	128,838	114,943
Total selling, general and administrative expenses	244,863	216,342
Operating income (loss)	11,171	(4,438)
Non-operating income		
Interest income	169	371
Dividend income	1,314	1,418
Gain on debt settlement	1,487	1,862
Other	884	1,410
Total non-operating income	3,855	5,062
Non-operating expenses		
Interest expenses	772	848
Provision for redemption of gift certificates	1,058	1,068
Share of loss of entities accounted for using equity method	226	561
Other	1,138	1,052
Total non-operating expenses	3,196	3,530
Ordinary income (loss)	11,831	(2,907)
Extraordinary income (Note 9)		
Subsidy income	-	2,683
Penalty income	-	366
Gain on sales of non-current assets	997	-
Gain on sales of investment securities	693	-
Gain on bargain purchase	17	-
Total extraordinary income	1,707	3,049
Extraordinary losses (Note 9)		
Impairment loss	14,196	14,771
Loss due to COVID-19	-	5,353
Loss on store closings	747	2,103
Loss on retirement of non-current assets	1,848	1,944
Business restructuring expenses	3,854	-
Loss on sale of non-current assets	930	-
Loss on liquidation of business	821	-
Loss on share exchanges	477	-
Total extraordinary losses	22,875	24,172
Loss before income taxes	(9,337)	(24,030)
Income taxes - current (Note 19)	3,550	1,467
Income taxes - deferred (Note 19)	262	(706)
Total income taxes	3,813	761
Loss	(13,150)	(24,791)
Profit attributable to non-controlling interests	0	0
Loss attributable to owners of parent	¥ (13,150)	¥ (24,791)

See accompanying notes.

Consolidated Statements of Comprehensive Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen	
Years ended 31st March, 2020 and 2021	2020	2021
Loss	¥ (13,150)	¥ (24,791)
Other comprehensive income (loss) (Note 10)		
Valuation difference on available-for-sale securities	(17,429)	13,233
Foreign currency translation adjustment	(47)	52
Remeasurements of defined benefit plans, net of tax	744	384
Share of other comprehensive income (loss) of entities accounted for using equity method	(291)	115
Total other comprehensive income (loss)	(17,024)	13,786
Comprehensive income (loss)	¥ (30,174)	¥ (11,005)
Comprehensive income (loss) attributable to:		
Owners of parent	¥ (30,174)	¥ (11,005)
Non-controlling interests	0	0

See accompanying notes.

Consolidated Statements of Changes in Net Assets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen				
	Shareholders' equity				
Years ended 31st March 2020 and 2021	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at 1st April 2019	¥17,796	¥92,675	¥132,278	¥(2,995)	¥239,755
Changes of items during period					
Dividends of surplus			(4,944)		(4,944)
Loss attributable to owners of parent			(13,150)		(13,150)
Purchase and disposal of treasury shares		(24)		96	71
Net changes of items other than shareholders' equity					-
Total changes of items during period	-	(24)	(18,094)	96	(18,022)
Balance at 31st March 2020	¥17,796	¥92,650	¥114,184	¥(2,899)	¥221,732
Balance at 1st April 2020	¥17,796	¥92,650	¥114,184	¥(2,899)	¥221,732
Cumulative effects of changes in accounting policies			(308)		(308)
Restated balance	17,796	92,650	113,875	(2,899)	221,424
Changes of items during period					
Dividends of surplus			(4,018)		(4,018)
Loss attributable to owners of parent			(24,791)		(24,791)
Purchase and disposal of treasury shares		(17)		167	149
Net changes of items other than shareholders' equity					-
Total changes of items during period	-	(17)	(28,810)	167	(28,660)
Balance at 31st March 2021	¥17,796	¥92,633	¥85,065	¥(2,732)	¥192,763

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehen-sive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at 1st April 2019	¥42,864	¥124	¥(788)	¥(3,591)	¥38,608	¥1,235	¥4	¥279,603
Changes of items during period								
Dividends of surplus								(4,944)
Loss attributable to owners of parent								(13,150)
Purchase and disposal of treasury shares								71
Net changes of items other than shareholders' equity	(17,429)	-	(339)	744	(17,024)	77	0	(16,946)
Total changes of items during period	(17,429)	-	(339)	744	(17,024)	77	0	(34,969)
Balance at 31st March 2020	¥25,435	¥124	¥(1,128)	¥(2,846)	¥21,584	¥1,312	¥4	¥244,634
Balance at 1st April 2020	¥25,435	¥124	¥(1,128)	¥(2,846)	¥21,584	¥1,312	¥4	¥244,634
Cumulative effects of changes in accounting policies								(308)
Restated balance	25,435	124	(1,128)	(2,846)	21,584	1,312	4	244,325
Changes of items during period								
Dividends of surplus								(4,018)
Loss attributable to owners of parent								(24,791)
Purchase and disposal of treasury shares								149
Net changes of items other than shareholders' equity	13,233	-	168	384	13,786	(174)	0	13,611
Total changes of items during period	13,233	-	168	384	13,786	(174)	0	(15,048)
Balance at 31st March 2021	¥38,668	¥124	¥(960)	¥(2,462)	¥35,370	¥1,138	¥4	¥229,277

Consolidated Statements of Cash Flows

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March 2020 and 2021	2020 (Millions of yen)	2021 (Millions of yen)
Cash flows from operating activities		
Loss before income taxes	¥ (9,337)	¥ (24,030)
Depreciation	18,519	18,141
Impairment loss	14,196	14,771
Loss on store closings	170	1,603
Amortisation of goodwill	581	546
Increase (decrease) in allowance for doubtful accounts	(103)	(156)
Increase (decrease) in provision for bonuses	(1,001)	(630)
Increase (decrease) in provision for directors' bonuses	(66)	(66)
Increase (decrease) in net defined benefit liability	(2,626)	(766)
Increase (decrease) in remeasurements of defined benefit plans	744	384
Increase (decrease) in provision for directors' retirement benefits	(7)	16
Increase (decrease) in provision for redemption of gift certificates	213	401
Increase (decrease) in provision for loss on store closings	(889)	269
Increase (decrease) in provision for point card certificates	129	(97)
Interest and dividend income	(1,483)	(1,789)
Interest expenses	772	848
Subsidy income	-	(2,683)
Penalty income	-	(366)
Loss due to COVID-19	-	4,865
Insurance income	(69)	-
Loss on disaster	2	-
Share of (profit) loss of entities accounted for using equity method	226	561
Loss (gain) on sale of investment securities	(692)	(0)
Loss (gain) on sales of non-current assets	(66)	(56)
Loss on retirement of non-current assets	773	1,114
Business restructuring expenses	3,854	-
Loss on liquidation of business	375	-
Loss (income) on share exchanges	461	-
Decrease (increase) in notes and accounts receivable - trade	4,857	(10,365)
Decrease (increase) in inventories	3,783	6,248
Increase (decrease) in notes and accounts payable - trade	(14,955)	5,326
Increase (decrease) in accrued consumption taxes	566	2,714
Increase (decrease) in gift certificates	(1,799)	201
Increase (decrease) in advances received	69	(847)
Other	(2,411)	2,663
Subtotal	14,785	18,820
Interest and dividend income received	1,368	1,640
Interest expenses paid	(766)	(769)
Income taxes paid	(5,525)	(1,858)
Subsidies received	-	2,683
Penalty income received	-	366
Payments for loss due to COVID-19	-	(4,848)
Payments for additional retirement benefit for early retirement	-	(3,279)
Proceeds from insurance income	69	-
Payments for loss on disaster	(60)	-
Cash flows from operating activities	9,871	12,755

	Millions of yen	
	2020	2021
Cash flows from investing activities		
Decrease (increase) in time deposits	-	-
Purchase of property, plant and equipment	(26,675)	(13,952)
Proceeds from sales of property, plant and equipment	9,138	1,429
Purchase of intangible assets	(6,938)	(4,087)
Proceeds from sales of intangible assets	0	-
Payments for asset retirement obligations	(205)	(158)
Purchase of investment securities	(1,288)	(219)
Proceeds from sale and redemption of investment securities	3,699	-
Payments for transfer of business (Note 12)	-	(150)
Payments for transfer of business (Note 12)	(648)	-
Payments of long-term loans receivable	(2,685)	(4,402)
Collection of long-term loans receivable	2,554	449
Payments for guarantee deposits	(962)	(317)
Proceeds from collection of guarantee deposits	1,549	695
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	(23)	(47)
Other	35	-
Cash flows from investing activities	(22,451)	(20,761)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	7,000	(15,000)
Proceeds from long-term loans payable	98	70,000
Repayments of long-term loans payable	(20,375)	(18,175)
Proceeds from issuance of bonds	-	-
Redemption of bonds	-	-
Proceeds from sales of treasury shares	0	0
Purchase of treasury shares	(2)	(1)
Cash dividends paid	(4,944)	(4,018)
Repayments of lease obligations	(959)	(943)
Proceeds from sale and leaseback transactions	2,742	-
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	-
Cash flows from financing activities	(16,440)	31,859
Effect of exchange rate change on cash and cash equivalents	(119)	179
Net increase (decrease) in cash and cash equivalents	(29,139)	24,033
Cash and cash equivalents at beginning of year	55,229	25,958
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	¥ (130)	¥ -
Cash and cash equivalents at end of year (Note 12)	¥ 25,958	¥ 49,991

See accompanying notes.

Notes to the Consolidated Financial Statements

H2O RETAILING CORPORATION and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

H2O RETAILING CORPORATION ("the Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen. The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

As permitted by the regulations under the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements in yen do not necessarily agree with the sums of the individual amounts.

2. Summary of Significant Accounting Policies

Consolidation and investments in associates

The accompanying consolidated financial statements include the accounts of the Company and significant companies (together, "the Companies") over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control by the Company. Investments in associates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method.

The consolidated financial statements include the accounts of the Company and its 50 (55 in 2020) majority owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation. The principal subsidiaries are Hankyu Hanshin Department Stores, Inc., Izumiya Co., Ltd. and Hankyu Oasis Co., Ltd.

From the year ended 31st March 2021, the following companies have been excluded from the scope of consolidation. Profit and losses and cash flows for the period until liquidation were included in the consolidated statements of operations, consolidated statements of comprehensive income and consolidated statements of cash flows.

- CFIZ Co., Ltd. (due to sale of shares)
- CARNET CO., LTD. (due to liquidation)
- Hankyu Kitchen Yell Kyushu, Inc. (due to liquidation)
- Izumiya Research Institute Co., Ltd. (due to liquidation)
- Hankyu Design Systems Co., Ltd. (due to liquidation)

The equity method was applied to 8 (7 in 2020) associates for the year ended 31st March 2021. The principal associates were Ningbo Development Co., Ltd. and Hankyu Hanshin Point Co., Ltd.

From the year ended 31st March 2021, the following company has been included in associates accounted for using equity method.

- CFIZ Co., Ltd. (as a result of transfer to an equity method associate due to sale of shares)

In the year ended 31st March 2021, 4 (4 in 2020) consolidated subsidiaries had a financial year ending on 31st December. With respect to the period from the subsidiary's year-end to 31st March, necessary adjustments were made for significant transactions to reflect them appropriately in the consolidated financial statements.

Securities

Investment securities consist principally of marketable and nonmarketable equity securities. The Companies categorise the securities as "available-for-sale." Available-for-sale securities with fair market values are stated at fair value. Unrealised holding gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realised gains and losses on sales of such securities are determined principally by the average cost method. Available-for-sale securities with no fair market value are stated at average cost.

If the fair market value of available-for-sale securities declines significantly, the securities are stated at fair market value, and the difference between fair market value and the carrying amount is recognised as loss in the period of decline. If the net asset value of available-for-sale securities with no available fair market value declines significantly, the securities are written down to the net asset value and charged to income. In these cases, the fair market value or the net asset value will be carried forward as book value to the next year.

Inventories

Inventories are stated at cost. The book value of inventories is reduced on the basis of declines in profitability and is determined principally by the retail method for merchandise and finished goods and the weighted average method for work in process and raw materials and supplies.

Property, plant and equipment

Property, plant and equipment, excluding lease assets, are carried at cost. Depreciation is computed principally by the straight-line method at rates based on the estimated useful life of the asset. Expenditures for maintenance and repairs, including minor replacements and betterments, are charged to income as incurred. The estimated useful lives of buildings and structures, machinery, equipment and vehicles, and other assets are 1 to 60 years, 2 to 17 years, and 1 to 20 years, respectively.

Software

Software is amortised using the straight-line method over the estimated useful life of 5 years.

Leased assets

Leased assets under lease contracts that do not transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the period of the lease with a residual value at zero.

Allowance for doubtful accounts

The allowance for doubtful accounts is provided in amounts management considers sufficient to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amounts are individually estimated.

Provision for bonuses

The Companies accrue estimated amounts of employee bonuses based on the estimated amount to be paid in the subsequent period.

Provision for directors' bonuses

The Companies accrue bonuses for directors based on estimated payments to be made after the end of the year.

Provision for loss on store closings

The Companies provide provision for loss on the closing of stores based on the estimated amount to be incurred in the future.

Provision for point card certificates

The Companies provide provision for point card certificates based on the estimated amount to be incurred for sales promotion expenses from the use of points given to customers.

Provision for directors’ retirement benefits

With regard to retirement benefits for directors of some consolidated subsidiaries, the liability for lump-sum payments is stated at the amount which would be required to be paid if they retired as of the balance sheet date. The amount of provision for executive officers' severance and retirement benefits as of 31st March 2020 and 2021 was ¥15 million and ¥15 million, respectively.

Provision for redemption of gift certificates

The Companies record a liability for gift certificates upon the issuance of the certificates to its customers. If the gift certificates are not redeemed by customers within a certain time period, the Companies reverse the liability and recognise a gain. A provision is recorded by the Companies for the unredeemed gift certificates previously recognised as gain based on the estimated future redemption of those certificates.

Retirement benefits

The Companies apply the benefit formula to attribute the estimated amount of retirement benefits to the fiscal year upon calculation of projected benefit obligation. Past service cost is recognised in expenses in equal amounts within the average of the estimated remaining service years. Actuarial gains and losses are recognised in expenses in equal amounts within the average of the estimated remaining service years commencing with the following period.
Unrecognised actuarial gains and losses and unrecognised past service cost are recorded in “Remeasurements of defined benefit plans” in “Accumulated other comprehensive income” under “Net assets” with the tax effect adjustments.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currency are translated into Japanese yen at the rates prevailing at each balance sheet date, and the resulting translation gains and losses are charged to income. In the translation of the financial statements of the overseas subsidiary, assets and liabilities are translated at the rates prevailing at the subsidiary's balance sheet date, revenue and expenses are translated using the average exchange rate for the fiscal year, and shareholders' equity accounts are translated at historical rates. The resulting foreign currency translation adjustment is shown as a separate component of net assets.

Hedge accounting

(a) Accounting method

Deferral hedge accounting is adopted for hedge transactions. The Company applies the designation method for foreign exchange forward contracts and for currency swaps in cases in which the specific requirements for this treatment are fulfilled. The Company applies the special accounting treatment for interest rate swaps in cases in which the specific requirements for this treatment are fulfilled.

(b) Hedging instruments and hedged items

(1) Hedging instruments: Interest rate swaps, currency swaps
Hedged items: Loans payable

(2) Hedging instruments: Foreign exchange forward contracts
Hedged items: Monetary assets and liabilities denominated in foreign currency

(c) Policies on hedges

As for interest related derivatives, interest rate swaps are used to exchange floating rates to fixed rates. In addition, foreign exchange forward contracts and currency swaps are used to avoid losses from foreign exchange market fluctuation. As a policy, the Company does not enter derivatives for speculative purpose or with a high leverage effect.

(d) Evaluation of hedge effectiveness
The Companies assess hedge effectiveness by comparing the cumulative variation in cash flows of hedged items and the cumulative variation in cash flows of the hedging instruments. The Companies do not evaluate the effectiveness of hedges for interest rate swaps under special accounting treatment since the interest payments and terms of the swaps are consistent with those of the hedged items.

Goodwill
The difference between the cost of investments in consolidated subsidiaries and the equity in their net assets at the date of acquisition is generally amortised over 10 to 20 years. However, if the amount is insignificant, it is charged as expense as incurred.

Cash flow statements
In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Consumption taxes
Consumption taxes are excluded from revenue and expense accounts, which are subject to such taxes. However, the non-deductible portion of consumption taxes is accounted for as expense in the same year the taxes are incurred.

Per share information
Computations of basic profit per share are based on the weighted average number of shares outstanding during each period. For diluted profit per share for the years ended 31st March 2020 and 2021, see Note 23.

Cash dividends per share presented in the five-year summary of the accompanying consolidated financial statements are dividends applicable to the respective years, including dividends to be paid after the end of the year.

3. Significant Accounting Estimates

Impairment on non-current assets
(1) Amounts recorded in the consolidated financial statements for the year ended 31st March 2021
The Group operates various types of retail stores such as department stores, GMS, supermarkets, etc., and constantly makes capital investments in new stores, renewal of facilities, etc.

As for non-current assets recorded from such capital investments, recoverable amounts (useable values or net saleable values) are estimated and book values as of the balance sheet date are recorded in the consolidated balance sheets to the extent that the assets are deemed to have a recoverable amount capable of exceeding that book value.

The amounts recorded in the consolidated balance sheet after the above estimates and valuations as of 31st March 2021 were as follows:
Property, plant and equipment: ¥261,386 million
Intangible assets: ¥16,729 million

(2) Methods used to estimate the recoverable amounts
The recoverability of non-current assets is determined on each measuring unit principally based on stores.

When there is an indication of impairment such as incurring operating losses for two consecutive fiscal years in a certain store, future expected operating cash flows by store after allocating corporate expenses as common department are estimated over the economic remaining useable years of the major non-current assets of the relevant store. Impairment losses are recorded for the store where the estimated future operating cash flows are below book values of store assets as of the balance sheet date.

The recorded amounts of the impairment losses are calculated as difference between the present values of the future expected operating cash flows by store after allocating corporate expenses discounted using WACC and book values of store assets as of the balance sheet date.

Expected amounts by store reflect every identifiable element which effects store operations including new store openings by competitors in neighborhood areas, changes in external circumstances such as demographic trends in trade areas, effects of policies to decrease costs corresponding to environmental changes and measures to attract customers, etc. based on the recent customer trends.

Discount rates are calculated using the weighted average methods with the cost of equity calculated using the capital asset pricing model (CAPM) and the cost of debt calculated using the actual borrowing rates based on the debt equity ratio (D/E ratio) of the Group as of the balance sheet date. 3.6% is used for the year ended 31st March 2021.

Regardless of the above, for stores and other assets on which the decision of closing or sales were made, impairment loss is recognised to reduce the book value to the recoverable amount which is measured at the net saleable values primarily based on the value appraised by real estate appraisers.

(3) Effects on the consolidated financial statements for the year ending 31st March 2022
The estimates could be affected by changes in the future uncertain economic conditions, etc. There could be significant effects on the consolidated financial statements for the year ending 31st March 2022 if timing or amounts of the actual cash flows differ from the estimates or the discount rates fluctuate significantly due to fluctuation in share prices or borrowing rates, etc.

Recoverability of deferred tax assets

(1) Amounts recorded in the consolidated financial statements
Each entity of the Group has temporary deductible differences derived from impairment losses on stores whose profitability has declined, tax loss carryforwards, etc. Deferred tax assets are recognised to the extent that the amounts are reasonably expected to reduce the future tax burden by estimating the amounts of future taxable income and timing and amounts of utilising temporary deductible differences.

The amounts of deferred tax assets are same as those described in Note 19. “Income Taxes.”

(2) Methods used to estimate the recoverable amounts
To determine the recognition of deferred tax assets, each entity of the Group is classified into five categories in accordance with “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (“ASBJ”) Guidance No. 26) based on level of taxable income in prior years, situation of temporary deductible differences, situation of significant tax loss carryforwards, etc. According to the classification, scheduling of expected utilization of taxable income and temporary deductible differences of each entity of the Group is projected and only the amounts that are expected to be recoverable are recorded.

Calculation of estimated future taxable income of each entity of the Group is provided carefully considering the trends of operating results of each entity to date, expected changes in the external circumstances in the future and the effects of measures, etc. to improve profitability corresponding to changes in the external circumstances.

(3) Effects on the consolidated financial statements for the year ending 31st March 2022
The estimates could be affected by changes in the future uncertain economic conditions, etc. There could be significant effects on the consolidated financial statements for the year ending 31st March 2022 if timing or amounts of the actual taxable income differ from the estimates.

4. Additional Information

Accounting Estimates Relating to the Spread of the Novel Coronavirus (COVID-19)
The Company made accounting estimates based on the assumption that the effects of the COVID-19 on the operating results will continue for a certain period while the situation will gradually recover towards the end of the year ending 31th March 2022. The actual results may be different from this assumption since there are uncertain factors for estimating the timing when the COVID-19 is ending, etc.

5. Change in Accounting Policies

Change in Valuation Criteria and Valuation Methods for Inventories
For a certain consolidated subsidiary of the Company, inventories were stated at cost and the book value of inventories was reduced based on the declines in profitability and determined principally by the retail method.

From the beginning of the year ended 31st March 2021, the valuation method is changed to the lower of cost or market method and the book value of inventories is reduced based on the declines in profitability and determined principally by the retail method since required information became available as a result of system integration of supermarket business.

It is practically impossible to retroactively adopt this accounting policy since the integrated system does not contain the required data for prior years. Accordingly, the cumulative effects calculated based on the difference between the book value of inventories as of the beginning of the year ended 31st March 2021 under the new valuation method and the book value of inventories as of the end of the year ended 31st March 2020 has been reflected in the beginning balance for the year ended 31st March 2021.

As a result of this change, retained earnings as of the beginning of the year ended 31st March 2021 decreased by ¥308 million. The effect on the cost of sales, each step profits or loss and per share information for the year ended 31st March 2021 was immaterial.

6. Accounting Standards not yet Applied

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, 30th March 2018)
"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, 30th March 2018)

(Overview)
This is a comprehensive accounting standard for revenue recognition. Revenue is recognised by applying the following five steps:

Step 1: Identify the contract with customers.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognise revenue when (or as) the entity satisfies performance obligations.

(Date of Application)
The Company will apply the accounting standard and the implementation guidance from the beginning of the year ending 31st March 2022.

(Effect of Application)
The Company is in the process of determining the effect of the application.

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, 4th July 2019)

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, 4th July 2019)

"Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, 4th July 2019)

"Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, 4th July 2019)

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, 31th March 2020)

(Overview)
In order to enhance comparability with internationally recognised accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (together, hereinafter referred to as "Fair Value Accounting Standards") were developed and guidance on methods measuring fair value was issued. Fair Value Accounting Standards are applicable to the fair value measurement of the following items:

- Financial instruments in "Accounting Standard for Financial Instruments"; and
- Inventories held for trading purposes in "Accounting Standard for Measurement of Inventories."

(Date of Application)
The Company will apply the accounting standard and the implementation guidance from the beginning of the year ending 31st March 2022.

(Effect of Application)
The Company is in the process of determining the effect of the application.

7. Changes in Presentation

Application of "Accounting Standard for Disclosure of Accounting Estimates"

The Company and its subsidiaries adopted "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, 31th March 2020) to the consolidated financial statements for the year ended 31th March 2021, and therefore significant accounting estimates are disclosed in the note to the consolidated financial statements. The note does not include information for the year ended 31th March 2020 in accordance with the transitional provision set out in paragraph 11 of the Accounting Standard.

8. Matters Related to Consolidated Balance Sheets

1. Due to the acceptance of national subsidies, the following reduction entry amount was deducted from the acquisition cost of relevant assets.

	Millions of yen	
	2020	**2021**
Reduction entry amount:	¥ 568	¥ 568
Buildings and structures	368	407
Machinery, equipment and vehicles	64	64
Land	44	58
Construction in progress	52	–
Other	38	38

2. Assets related to associates were as follows:

	Millions of yen	
	2020	**2021**
Investment securities (stocks)	¥ 10,388	¥ 10,106
[Investments in entities under common control]	[9,480]	[9,191]

3. Pledged assets

Assets pledged as collateral and corresponding secured liabilities are summarised below.

	Millions of yen	
	2020	**2021**
Buildings and structures	¥ 1,756	¥ –
Land	2,230	–
	¥ 3,986	¥ –
Current portion of long-term loans payable	¥ 1,900	¥ –
	¥ 1,900	¥ –

Deposits under the Installment Sales Act were as follows:

	Millions of yen	
	2020	**2021**
Guarantee deposits	¥ 134	¥ 134

Deposits under the Real Estate Brokerage Act were as follows:

	Millions of yen	
	2020	**2021**
Guarantee deposits	¥ 10	¥ 10

Deposits under the Travel Business Act were as follows:

	Millions of yen	
	2020	**2021**
Guarantee deposits	¥ 2	¥ 2

4. Land revaluation

In accordance with the Act on Revaluation of Land and Act on Partial Amendment to the Act on Revaluation of Land, land used for business owned by the Company and some consolidated subsidiaries was revaluated. The unrealised gains and losses, net of deferred taxes, were excluded from the statements of operations and reported as “Revaluation reserve for land” in net assets, and the relevant deferred taxes were shown as “Deferred tax liabilities for land revaluation” in liabilities at 31st March 2020 and 2021.

Related information was as follows:

	Millions of yen	
Date of revaluations: 28th February 2002 and 31st March 2002	2020	**2021**
Difference between book value of land after revaluation and market value of land	¥ (826)	¥ (792)

5. Commitment agreements

In order to obtain working funds efficiently, the Company had loan commitment agreements with 3 (2 in 2020) financial institutions. The loan commitment facilities and unused balances as of 31st March 2020 and 2021 were as follows:

	Millions of yen	
	2020	**2021**
Total loan commitment facilities	¥ 20,000	¥ 50,000
Outstanding balances	6,000	−
Unused balances	¥ 14,000	¥ 50,000

Some consolidated subsidiaries provide financial services using card loans and credit cards. The overdraft commitment facilities and unused balances as of 31st March 2020 and 2021 were as follows:

	Millions of yen	
	2020	**2021**
Total overdraft commitment facilities	¥ 5,632	¥ 12,795
Outstanding balances	416	406
Unused balances	¥ 5,215	¥ 12,388

The overdraft commitment facilities include overdraft contracts that are executed subject to the customer's use of funds and credit condition. Thus, the total facilities are not always executed.

6. Specified accounts pertaining to business combination

For the years ended 31st March 2020 and 2021, due to the business transfer from Sogo & Seibu Co., Ltd. effective on 1st October 2017, specified accounts pertaining to business combination were recorded for expenses necessary for replacing customer credit cards (new issuance) in the amount of ¥665 million and ¥443 million, respectively. In the consolidated balance sheets, they were recorded in “Other” under “Non-current liabilities.”

9. Matters Related to Consolidated Statements of Operations

1. Reduction in the book value of inventories

Reduction in book value of inventories held for ordinary sale due to a decline in profitability for the years ended 31st March 2020 and 2021 was as follows:

	Millions of yen	
	2020	**2021**
Cost of sales	¥ 596	¥ 706

2. Subsidy income

Subsidy income for the year ended 31st March 2021 consisted of employment adjustment subsidy for personnel expenses for employees on leave.

3. Penalty income

Penalty income for the year ended 31st March 2021 consisted mainly of penalty income Hankyu Oasis Co., Ltd. received due to tenants closing before the end of lease agreements.

4. Gain on sales of non-current assets

Gain on sales of non-current assets for the year ended 31st March 2020 consisted mainly of gains on the sales of buildings and structures, as well as land of H2O Asset Management Co., Ltd.

5. Gain on sales of investment securities

Gain on sales of investment securities for the year ended 31st March 2020 consisted of gains on the sales of shares of Mitsubishi Logistics Corporation and Wacoal Holdings Corp. by H2O RETAILING CORPORATION.

6. Impairment loss

The Companies recognise asset groups based on certain rules. As for stores and others, asset groups are based on the management unit of performance. As for the idle assets and the assets to be sold, each individual asset constitutes an asset group.

The Companies recorded impairment loss for the year ended 31st March 2020 as follows:

Company	Asset Group	Use	Location	Type of Assets	*Millions of yen*
Izumiya Co., Ltd.	Koryo store, Katata store, Okubo store and other	Store	Kitakatsuragi-gun, Nara and other	Buildings and structures	¥5,182
				Machinery, equipment and vehicles	81
				Other	911
Hankyu Oasis Co., Ltd.	Itamikonoike store, Kitchen & Market Lucua Osaka store and other	Store	Itami City and other	Buildings and structures	¥3,892
				Machinery, equipment and vehicles	294
				Other	581
Hankyu Hanshin Department Stores, Inc.	Hankyu Men's Tokyo, Takarazuka Hankyu and other	Store	Chiyoda-ku, Tokyo and other	Buildings and structures	¥1,967
				Machinery, equipment and vehicles	5
				Other	252
H2O Asset Management Co., Ltd.	Kawachinagano store and other	Store and land for rent	Kawachinagano City and other	Buildings and structures	¥558
				Land	165
Qanat Co., Ltd. and other	Izumiotsu store and other	Store and other	Izumiotsu City and other	Buildings and structures	¥200
				Machinery, equipment and vehicles	25
				Other	246

For Izumiya Co., Ltd., Hankyu Oasis Co., Ltd., Qanat Co., Ltd. and other companies, impairment loss was recognised for asset groups in stores with continuous negative cash flows from operating activities and asset groups in closed stores.

For Hankyu Hanshin Department Stores, Inc., impairment loss was recognised for asset groups in stores with continuous negative cash flows from operating activities.

For H2O Asset Management Co., Ltd., impairment loss was recognised for asset groups in stores with continuous negative cash flows from operating activities and certain land resulting from a decline in market value.

The recoverable amounts of assets were principally the present value of expected cash flows from on-going use and subsequent disposal of the assets based on a discount rate of 3.4%. For some asset groups, the recoverable amounts were the net saleable values based on the expected sales amounts and the real estate appraisal value, etc.

As a result, the Group recognised a total of ¥14,366 million of impairment loss, of which, ¥170 million in connection with the closing of Hankyu Oasis Co., Ltd. and other stores was included in "Loss on store closings" and ¥14,196 million was included in "Impairment loss" under "Extraordinary losses" in the consolidated statement of operations.

The Companies recorded impairment loss for the year ended 31st March 2021 as follows:

Company	Asset Group	Use	Location	Type of Assets	*Millions of yen*
Hankyu Hanshin Department Stores, Inc.	Takatsuki Hankyu, Kobe Hankyu and other	Store	Takatsuki City, Osaka and other	Buildings and structures	¥3,938
				Machinery, equipment and vehicles	37
				Other	310
H2O Shopping Center Development Co., Ltd.	Nishinomiya Gardens store, Fukumachi store, Hakubaicho store and other	Store	Osaka City, Osaka and other	Buildings and structures	¥2,732
				Machinery, equipment and vehicles	17
				Land	293
				Other	304
Hankyu Shopping Center Development Co., Ltd.	Rakuhoku Hankyu Square and other	Store	Kyoto City, Kyoto and other	Buildings and structures	¥1,432
				Machinery, equipment and vehicles	112
				Other	304
H2O Asset Management Co., Ltd.	Kyuedosaki store, Okubo store and other	Land and buildings for rent, and store	Inashiki City, Ibaraki and other	Buildings and structures	¥782
				Land	662
				Other	37
Izumiya Co., Ltd.	Izumifuchu store, Shinchujo store, Harayamadai store and other	Store	Izumiotsu City, Osaka and other	Buildings and structures	¥925
				Machinery, equipment and vehicles	58
				Other	297
Shinko Management, Inc.	Takatsuki Hankyu and Kobe Hankyu	Store	Takatsuki City, Osaka and other	Buildings and structures	¥1,217
Hankyu Oasis Co., Ltd.	Fukushima Fukumarudori Store and other	Store	Osaka City, Osaka and other	Buildings and structures	¥551
				Machinery, equipment and vehicles	26
				Land	69
				Other	282
asnas Co., Ltd.	Hanshin Umeda Higashiguchi Store and other	Store and other	Osaka City, Osaka and other	Buildings and structures	¥1,290
				Machinery, equipment and vehicles	45
				Goodwill	54
				Other	589

For Hankyu Hanshin Department Stores, Inc., H2O Shopping Center Development Co., Ltd., Hankyu Shopping Center Development Co., Ltd., Izumiya Co., Ltd., Hankyu Oasis Co., Ltd., asnas Co., Ltd. and other companies, impairment loss was recognised to the recoverable amounts for asset groups in stores with continuous negative cash flows from operating activities and asset groups in closed stores.

For H2O Asset Management Co., Ltd. and Shinko Management, Inc., impairment loss was recognised to the recoverable amounts for asset groups in stores with continuous negative cash flows from operating activities.

The recoverable amounts of assets were principally the present value of expected cash flows from on-going use and subsequent disposal of the assets based on a discount rate of 3.6%. For some asset groups, the recoverable amounts were the net saleable values.

As a result, the Group recognised a total of ¥16,374 million of impairment loss, of which, ¥1,603 million in connection with the closing of H2O Shopping Center Development Co., Ltd. and other stores was included in "Loss on store closings" and ¥14,771 million was included in "Impairment loss" under "Extraordinary losses" in the consolidated statement of operations.

7. Loss due to COVID-19

Loss due to COVID-19 for the year ended 31st March 2021 is summarised below:

	Millions of yen	
	2021	
Personnel expenses for employees on leave	¥	3,285
Rent and depreciation expenses while businesses were closed		1,728
Other (Store decontamination expenses, event cancellation fees and other)		339
Total	¥	5,353

8. Loss on store closings

Loss on store closings for the years ended 31st March 2020 and 2021 is summarised below:

	Millions of yen			
	2020		**2021**	
Izumiya Stores	¥	210	¥	1,466
Hankyu Oasis Stores		104		164
SELCY		194		44
Other		238		427
Total	¥	(*1) 747	¥	(*2) 2,103

*1. The amount included an impairment loss of ¥170 million, rent penalty and other of ¥43 million, expenses for store closing of ¥334 million and a loss on retirement of non-current assets of ¥93 million in connection with store closings for the year ended 31st March 2020.

*2. The amount included an impairment loss of ¥1,603 million, rent penalty and other of ¥162 million, expenses for store closings of ¥154 million and a loss on retirement of non-current assets of ¥78 million in connection with store closings for the year ended 31st March 2021.

9. Loss on retirement of non-current assets consisted of the following:

	Millions of yen	
	2020	**2021**
Buildings and structures	¥ 557	¥ 531
Machinery, equipment and vehicles	17	23
Removal cost	(*1) 1,168	(*2) 882
Other	199	584
Total	¥ (*1) 1,941	¥ (*2) 2,022

*1. The amounts included a loss on retirement of non-current assets for Izumiya Miyazaki store and other of ¥93 million for the year ended 31st March 2020, which is presented in "Loss on store closings" under "Extraordinary losses."

*2. The amounts included a loss on retirement of non-current assets for Yao Mall store and other of Qanat Co. Ltd. of ¥78 million for the year ended 31st March 2021, which is presented in "Loss on store closings" under "Extraordinary losses."

10. Business restructuring expenses

For the year ended 31st March 2020, business restructuring expenses consisted of the additional payment for early retirement of ¥3,289 million and a loss on valuation of goods of ¥560 million in connection with business model conversion of Izumiya Co., Ltd.

11. Loss on sale of non-current assets

For the year ended 31st March 2020, the amount of loss on sale of non-current assets consisted mainly of loss on sale of buildings and structures, land and other of H2O Asset Management Co., Ltd.

12. Loss on liquidation of business

For the year ended 31st March 2020, the amount of loss on liquidation of business related to liquidation of Hankyu Kitchen Yell Kyushu, Inc. of ¥417 million and sale of shares of Withsystem Inc. of ¥241 million.

13. Loss on share exchanges

For the year ended 31st March 2020, the amount of loss on share exchanges related to share exchanges of KAZOKUTEI CO., LTD. and Sun Laurie Co., Ltd. with SRS HOLDINGS CO., LTD.

10. Matters Related to Consolidated Statements of Comprehensive Income

The recycling and effect of deferred income taxes on other comprehensive income for the years ended 31st March 2020 and 2021 is summarised as follows:

	Millions of yen			
		2020		**2021**
Other comprehensive income				
Valuation difference on available-for-sale securities				
Amount arising for the year	¥	(24,422)	¥	19,068
Reclassification adjustments		(692)		–
Amount before the effect of deferred income tax		(25,114)		19,068
Effect of deferred income tax		7,684		(5,834)
Valuation difference on available-for-sale securities		(17,429)		13,233
Foreign currency translation adjustment				
Amount arising for the year		(47)		52
Reclassification adjustments		–		–
Amount before the effect of deferred income tax		(47)		52
Effect of deferred income tax		–		–
Foreign currency translation adjustment		(47)		52
Remeasurements of defined benefit plans, net of tax				
Amount arising for the year		469		(123)
Reclassification adjustments		618		573
Amount before the effect of deferred income tax		1,088		450
Effect of deferred income tax		(343)		(66)
Remeasurements of defined benefit plans, net of tax		744		384
Share of other comprehensive income of entities accounted for using equity method				
Amount arising for the year		(291)		115
Total other comprehensive income	¥	(17,024)	¥	13,786

11. Matters Related to Consolidated Statements of Changes in Net Assets

1. Changes in number of shares issued and outstanding during the years ended 31st March 2020 and 2021 were as follows:

Common stock outstanding

	Number of shares	
	2020	**2021**
Balance at beginning of year	125,201,396	125,201,396
Increase	–	–
Decrease	–	–
Balance at end of year	125,201,396	125,201,396

Treasury shares outstanding

	Number of shares	
	2020	**2021**
Balance at beginning of year	1,609,297	1,558,219
Increase due to purchase of odd-lot shares	2,230	2,414
Decrease due to sales of odd-lot shares	(308)	(325)
Decrease due to exercise of stock options	(53,000)	(90,500)
Balance at end of year	1,558,219	1,469,808

2. Subscription rights to shares

	Millions of yen	
	2020	**2021**
H2O Retailing Corporation:		
March 2009 stock options	¥ 10	¥ 8
March 2010 stock options	22	17
March 2011 stock options	30	22
February 2012 stock options	36	28
March 2013 stock options	88	65
March 2014 stock options	87	61
March 2015 stock options	193	144
March 2016 stock options	186	145
March 2017 stock options	165	160
March 2018 stock options	179	174
June 2018 stock options	159	152
July 2019 stock options A (stock-based compensation with seniority-based conditions)	110	106
July 2019 stock options B (stock-based compensation with performance-based vesting conditions)	40	–
July 2020 stock options A (stock-based compensation with seniority-based conditions)	–	50
Total	¥ 1,312	¥ 1,138

3. Dividends

Dividends paid in the year ended 31st March 2020

Resolution	Class of shares	Millions of yen Total dividends	Yen Dividend per share	Record date	Effective date
14th May 2019 Board of Directors' meeting	Common stock	¥2,471	¥20.00	31st March 2019	30th May 2019
31st October 2019 Board of Directors' meeting	Common stock	¥2,472	¥20.00	30th September 2019	29th November 2019

Dividends with a record date in the year ended 31st March 2020 but an effective date in the year ended 31st March 2021

Resolution	Class of shares	Source	Millions of yen	Yen	Record date	Effective date
			Total dividends	Dividend per share		
25th May 2020 Board of Directors' meeting	Common stock	Retained earnings	¥2,472	¥20.00	31st March 2020	9th June 2020

Dividends paid in the year ended 31st March 2021

Resolution	Class of shares	Millions of yen	Yen	Record date	Effective date
		Total dividends	Dividend per share		
25th May 2020 Board of Directors' meeting	Common stock	¥2,472	¥20.00	31st March 2020	9th June 2020
30th October 2020 Board of Directors' meeting	Common stock	¥1,545	¥12.50	30th September 2020	30th November 2020

Dividends with a record date in the year ended 31st March 2021 but an effective date in the year ending 31st March 2022

Resolution	Class of shares	Source	Millions of yen	Yen	Record date	Effective date
			Total dividends	Dividend per share		
11th May 2021 Board of Directors' meeting	Common stock	Retained earnings	¥1,546	¥12.50	31st March 2021	1st June 2021

4. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Companies Act (the “Act”), in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividends or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Act, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalised generally by a resolution of the shareholders’ meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Act, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Act.

12. Cash Flows Information

1. The reconciliation of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of 31st March 2020 and 2021 was as follows:

	Millions of yen	
	2020	**2021**
Cash and deposits	¥ 25,958	¥ 49,991
Time deposits with maturities exceeding three months	–	–
Cash and cash equivalents	¥ 25,958	¥ 49,991

2. Major components of the assets and liabilities related to a business transfer in consideration of cash and cash equivalents

The following is a summary of assets and liabilities related to a transfer of the HBC business and other of Izumiya Co., Ltd., the amount of business transferred and the payments for the business transfer:

	Millions of yen
	2021
Current assets	¥ 202
Non-current assets	84
Current liabilities	(45)
Non-current liabilities	(285)
Other	44
Amount of business transferred	1
Cash and cash equivalents	(151)
Diff: Payments for transfer of business	¥ 150

3. Major components of the assets and liabilities related to a business transfer (acquisition) in consideration of cash and cash equivalents

The following is a summary of assets and liabilities acquired by asnas Co., Ltd. and Hankyu Freds Co., Ltd. related to a business transfer (acquisition), the amount of business acquired and the payments for the business transfer:

	Millions of yen
	2020
Current assets	¥ 569
Non-current assets	967
Current liabilities	(852)
Non-current liabilities	(21)
Goodwill	91
Gain on bargain purchase	(17)
Amount of business acquired	737
Cash and cash equivalents	(89)
Diff: Payments for transfer of business	¥ 648

4. Major components of the assets and liabilities at the time of exclusion from consolidation of subsidiaries which became non-consolidated subsidiaries due to share exchanges

The following is a summary of assets and liabilities at the time of exclusion from consolidation of Sun Laurie Co., Ltd. and KAZOKUTEI CO., LTD., which became non-consolidated subsidiaries due to share exchanges:

	Millions of yen
	2020
Current assets (Note)	¥ 1,441
Non-current assets	5,433
Total assets	¥ 6,875
Current liabilities	¥ 1,406
Non-current liabilities	3,382
Total liabilities	¥ 4,789

Note: Cash and cash equivalents of ¥130 million is included and presented in “Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation” in the consolidated statements of cash flows.

5. Significant noncash transactions were as follows:

	Millions of yen	
	2020	**2021**
Assets and liabilities in connection with finance lease transactions	¥ 5,654	¥ 5
Asset retirement obligations	845	986

13. Lease Transactions

Finance lease transactions

The Group as lessee

Finance leases that are not deemed to transfer ownership of the lease property to the lessee

(1) Breakdown of lease investment assets

Property, plant and equipment

Store facilities (buildings and structures) and merchandise display shelves and computers (other) in the supermarket business are included in property, plant and equipment.

(2) Method of depreciation of leased assets

Leased assets under lease contracts that do not transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the period of the lease with a residual value at zero.

Operating lease transactions

Future lease payments for non-cancellable operating leases:

The Group as lessee

	Millions of yen	
	2020	**2021**
Payments due within one year	¥ 14,863	¥ 14,879
Payments due after one year	61,485	52,279
Total	¥ 76,349	¥ 67,159

The Group as lessor

	Millions of yen	
	2020	**2021**
Payments due within one year	¥ 2,828	¥ 2,382
Payments due after one year	13,137	10,953
Total	¥ 15,965	¥ 13,336

14. Financial Instruments

1. Matters related to financial instruments

(1) Policies for financial instruments

In accordance with its capital investment plan, the Group procures needed funds primarily through loans from banks, commercial papers and the issuance of bonds. Temporary surplus funds are invested in highly secure financial assets. Derivative transactions are carried out within the confines of real demand according to internal control regulations, and no speculative transactions are performed.

(2) Financial instruments and their risks

Notes and accounts receivable - trade, which are operating receivables, and accounts receivable - other are subject to credit risk. Investment securities are subject to market price volatility risk.

Notes and accounts payable - trade, which are operating payables, and accounts payable - other are almost all subject to payment deadlines of one year or less. Commercial papers are used to procure necessary funds mainly for short-term operations. Long-term loans payable and bonds payable are mainly for capital investment. Repayment deadlines are at most 15 years and 11 months after the closing of accounts. Some are subject to interest rate risk because of floating interest rates. Moreover, notes and accounts payable - trade, accounts payable - other, long-term loans payable and bonds payable are subject to the liquidity risk of the inability to make payment by the payment due date.

The Company enters into interest rate swap transactions to hedge the fluctuation risk of interests on loans. The Company also enters into foreign exchange forward contracts and currency swap transactions to hedge foreign exchange market fluctuation risk of monetary assets and liabilities denominated in foreign currency. Hedging instruments and hedged items, policies on hedges and the evaluation of hedge effectiveness are stated in Note 2, "Summary of Significant Accounting Policies."

(3) Risk management system for financial instruments

Management of credit risk (risk of customer default on contract)

At Hankyu Hanshin Department Stores, Inc., a consolidated subsidiary, the management of customer service units cooperates with the accounting office concerning notes and accounts receivable - trade arising from sales activities according to sales management guidelines and credit management guidelines and routinely monitors the status of key customers by managing due dates and balances for each. At the same time, this company attempts to quickly determine if there are concerns about the collection of payment from particular customers due to worsening financial conditions. Other consolidated subsidiaries also manage credit risk in the same way.

Management of market risk (risk of fluctuation in interest rates and foreign exchange markets)

To limit the risk of fluctuation in interest rate payments for long-term loans payable and bonds payable and to limit the risk of foreign exchange market fluctuation of monetary assets and liabilities denominated in foreign currency, the Company conducts derivative transactions only with major and highly trusted financial institutions according to derivative management guidance.

Management of price volatility risk

The Company and Hankyu Hanshin Department Stores, Inc. invest in and manage securities and investment securities according to securities management guidance. Other consolidated subsidiaries also manage price volatility risk in the same way.

Management of liquidity risk

The Company and Hankyu Hanshin Department Stores, Inc., manage liquidity risk for accounts payable - trade and long-term loans payable following a cash management plan that the financial department prepares and updates based on reports provided by all departments in accordance with accounting rules. Other consolidated subsidiaries also manage liquidity risk in the same way.

2. Matters related to fair value of financial instruments

The book values recorded in the consolidated balance sheets for the years ended 31st March 2020 and 2021 (the consolidated closing date for the reporting term) and fair values and differences between them are set forth in the table below. Figures for which fair value was not readily determinable were not included in the chart (See "Note 2. Financial instruments whose fair value is not readily determinable" shown below).

Millions of yen

	2020		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 25,958	¥ 25,958	¥ –
(2) Notes and accounts receivable - trade	44,445		
Allowance for doubtful accounts	(165)		
	44,280	44,280	–
(3) Accounts receivable - other	7,618		
Allowance for doubtful accounts	(156)		
	7,462	7,462	–
(4) Investment securities			
Available-for-sale securities	79,127	79,127	–
Total assets	¥ 156,829	¥ 156,829	¥ –
(1) Notes and accounts payable - trade	¥ 43,917	¥ 43,917	¥ –
(2) Accounts payable - other	21,976	21,976	–
(3) Short-term loans payable	15,000	15,000	–
(4) Bonds payable	20,000	20,210	(210)
(5) Long-term loans payable (*1)	116,713	117,017	(304)
Total liabilities	¥ 217,608	¥ 218,122	¥ (514)
Derivative transactions:			
Hedge accounting is applied	¥ –	¥ –	¥ –
Total derivative transactions	¥ –	¥ –	¥ –

	Millions of yen		
	2021		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 49,991	¥ 49,991	¥ –
(2) Notes and accounts receivable - trade	54,385		
Allowance for doubtful accounts	(205)		
	54,180	54,180	–
(3) Accounts receivable - other	7,025		
Allowance for doubtful accounts	(39)		
	6,985	6,985	–
(4) Investment securities			
Available-for-sale securities	98,131	98,131	–
Total assets	¥ 209,289	¥ 209,289	¥ –
(1) Notes and accounts payable - trade	¥ 48,996	¥ 48,996	¥ –
(2) Accounts payable - other	26,890	26,890	–
(3) Short-term loans payable	–	–	–
(4) Bonds payable	20,000	20,050	(50)
(5) Long-term loans payable (*1)	168,547	168,555	(7)
Total liabilities	¥ 264,434	¥ 264,492	¥ (57)
Derivative transactions:			
Hedge accounting is applied	¥ –	¥ –	¥ –
Total derivative transactions	¥ –	¥ –	¥ –

*1. Figures shown include current portion of long-term loans payable.

Notes: 1. Matters related to the methods used to calculate fair value and derivative transactions of financial instruments

Assets

(1) Cash and deposits, (2) Notes and accounts receivable - trade and (3) Accounts receivable - other

Because these items have short repayment periods, the fair value approximates book value. Therefore, the book value is deemed to be the fair value.

(4) Investment securities

The fair value of these securities depends on their stock market price, while the fair value of bonds depends on their stock market price or the price submitted by the correspondent financial institution.

Liabilities

(1) Notes and accounts payable - trade, (2) Accounts payable - other and (3) Short-term loans payable

Because these items have short payment periods, the fair value approximates book value. Therefore, the book value is deemed to be the fair value.

(4) Bonds payable and (5) Long-term loans payable

The fair value of bonds payable and long-term loans payable is determined by discounting the current value at the assumed applicable interest rates should new bonds or loans be taken with the same total principal and interest. Bonds and long-term loans that are based on floating interest rates reflect market interest rates over the short term. In addition, because the Company's credit status has not changed substantially since taking on these loans and as the fair value approximates book value, the book value is deemed to be the fair value. For long-term loans that are based on floating interest rates and hedged by interest rate swaps under the exceptional method, the sum of principal and the interest accounted for as an integral part of the interest rate swaps is discounted by using the reasonably estimated loan interest rate applied to the same kind of loans.

Derivative transactions

Interest rate swaps under the exceptional method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable (See (5) above). Currency swaps under the designation method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable (See (5) above).

2. Financial instruments whose fair value is not readily determinable

These financial instruments have no market price and their future cash flow cannot be estimated. Because the fair value is not readily determinable, they have not been included in the above table.

	Millions of yen	
	2020	**2021**
	Book value	Book value
Unlisted shares	¥ 16,713	¥ 16,616
Guarantee deposits	70,425	70,029
Long-term guarantee deposited	9,632	9,530

3. Expected proceeds from redemption after the balance sheet date for monetary claims and securities that have maturities

	Millions of yen							
2020	Within 1 year		Over 1 year but within 5 years		Over 5 years but within 10 years		Over 10 years	
Cash and deposits	¥	25,958	¥	–	¥	–	¥	–
Notes and accounts receivable - trade		44,445		–		–		–
Accounts receivable - other		7,618		–		–		–
Total	¥	78,023	¥	–	¥	–	¥	–

	Millions of yen							
2021	Within 1 year		Over 1 year but within 5 years		Over 5 years but within 10 years		Over 10 years	
Cash and deposits	¥	49,991	¥	–	¥	–	¥	–
Notes and accounts receivable - trade		54,385		–		–		–
Accounts receivable - other		7,025		–		–		–
Total	¥	111,402	¥	–	¥	–	¥	–

4. Expected payments from redemption after the balance sheet date for bonds payable, long-term loans payable, lease obligations and other interest bearing debts

2020	*Millions of yen* Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Short-term loans payable	¥ 15,000	¥ –	¥ –	¥ –	¥ –	¥ –
Bonds payable	–	–	–	–	10,000	10,000
Long-term loans payable	18,100	46,351	75	15,075	75	37,080
Lease obligations	910	940	912	1,755	652	9,545
Total	¥ 34,010	¥ 47,292	¥ 987	¥ 16,831	¥ 10,728	¥ 56,626

2021	*Millions of yen* Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Short-term loans payable	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –
Bonds payable	–	–	–	10,000	–	10,000
Long-term loans payable	46,414	365	15,289	289	27,789	78,457
Lease obligations	910	926	1,757	653	675	8,870
Total	¥ 47,324	¥ 1,292	¥ 17,047	¥ 10,943	¥ 28,465	¥ 97,328

15. Investment Securities

The following tables summarise acquisition cost and book value (fair value) of available-for-sale securities with available fair values as of 31st March 2020 and 2021.

Available-for-sale securities with book value exceeding acquisition cost:

	Millions of yen					
	2020			**2021**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 20,931	¥ 63,972	¥ 43,040	¥ 21,254	¥ 81,363	¥ 60,108
Total	¥ 20,931	¥ 63,972	¥ 43,040	¥ 21,254	¥ 81,363	¥ 60,108

Available-for-sale securities with book value not exceeding acquisition cost:

	Millions of yen					
	2020			**2021**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 21,572	¥ 15,155	¥ (6,417)	¥ 21,185	¥ 16,768	¥ (4,417)
Total	¥ 21,572	¥ 15,155	¥ (6,417)	¥ 21,185	¥ 16,768	¥ (4,417)

Unlisted securities (¥6,325 million in 2020 and ¥6,510 million in 2021) are not included in the above tables since they do not have available fair values and it is extremely difficult to determine fair values.

The following table summarises sales of available-for-sale securities for the years ended 31st March 2020 and 2021:

	Millions of yen					
	2020			**2021**		
	Sales	Gains of sales	Losses on sales	Sales	Gains of sales	Losses on sales
Equity securities	¥ 2,194	¥ 693	¥ 1	¥ –	¥ –	¥ –

The Companies recognise impairment loss on investment securities when the market value of securities decreases by 50% or more of the acquisition cost as of the balance sheet date or the market value continues to decrease by 30% or more throughout the fiscal year.

The “acquisition cost” which appears in the tables above is the book value after impairment loss. There was no impairment loss for the year ended 31st March 2020. Impairment loss for the year ended 31st March 2021 was insignificant and its disclosure was omitted.

16. Derivative Transactions

Derivatives for which hedge accounting is applied

(1) Currency related

For the year ended 31st March 2020

			Millions of yen		
			2020		
Method of hedge accounting	Type of derivative transactions	Hedged items	Contract amount	Due after one year	Fair value
Designation method for foreign exchange forward contract	Currency swaps Receive USD/ Pay JPY	Long-term loans	¥ 3,500	¥ 3,500	(Note)

Note: Currency swaps under the designation method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable.

For the year ended 31st March 2021

			Millions of yen		
			2021		
Method of hedge accounting	Type of derivative transactions	Hedged items	Contract amount	Due after one year	Fair value
Designation method for foreign exchange forward contract	Currency swaps Receive USD/ Pay JPY	Long-term loans	¥ 3,500	¥ –	(Note)

Note: Currency swaps under the designation method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable.

(2) Interest related

For the year ended 31st March 2020

			Millions of yen		
			2020		
Method of hedge accounting	Type of derivative transactions	Hedged items	Contract amount	Due after one year	Fair value
Exceptional method for interest rate swaps	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	¥ 3,500	¥ 3,500	(Note)

Note: Interest rate swaps under the exceptional method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable.

For the year ended 31st March 2021

			Millions of yen		
			2021		
Method of hedge accounting	Type of derivative transactions	Hedged items	Contract amount	Due after one year	Fair value
Exceptional method for interest rate swaps	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	¥ 3,500	¥ –	(Note)

Note: Interest rate swaps under the exceptional method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable.

17. Employees' Severance and Retirement Benefits

The Companies provide three types of retirement benefit plans, unfunded lump-sum payment plans, defined benefit pension plans and defined contribution pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salary at the time of retirement or termination, length of service and certain other factors.

The Company and Hankyu Hanshin Department Stores, Inc. have retirement benefits plans which consist of unfunded lump-sum payment plans, defined benefit pension plans and defined contribution pension plans. Izumiya Co., Ltd. and H2O Shopping Center Development Co., Ltd. have unfunded lump-sum payment plans, defined benefit pension plans and defined contribution pension plans. In April 2017, these companies transferred a portion of the defined benefit pension plans and unfunded lump-sum payment plans to defined contribution plans. Other subsidiaries also have unfunded lump-sum payment plans, defined benefit pension plans or defined contribution pension plans. The Company, Hankyu Hanshin Department Stores, Inc. and Izumiya Co., Ltd. each have a retirement benefit trust in their retirement benefit plans. Additional retirement benefits may be provided upon the retirement of employees, where those benefits are not considered to be retirement benefit obligations as calculated under actuarial methods in accordance with the accounting standard for retirement benefits. The employees of the Company, who are seconded from the subsidiaries, are provided with the respective subsidiaries' retirement benefit plans. The simplified method is used to calculate net defined benefit liability and retirement benefit cost for defined benefit pension plans and unfunded lump-sum payment plans of the Company and unfunded lump-sum payment plans of some subsidiaries.

1. Defined benefit plans (excluding plans under the simplified method)

(1) Changes in projected benefit obligation were as follows:

	Millions of yen	
	2020	**2021**
Projected benefit obligation - beginning balance	¥ 50,754	¥ 46,918
Service cost	1,914	1,785
Interest cost	138	112
Changes in actuarial differences	(2,977)	(343)
Retirement benefits paid	(2,910)	(3,515)
Decrease due to business divesture	−	(665)
Projected benefit obligation - ending balance	¥ 46,918	¥ 44,984

(2) Changes in plan assets were as follows:

	Millions of yen	
	2020	**2021**
Plan assets - beginning balance	¥ 35,843	¥ 34,845
Expected return on plan assets	1,133	1,076
Changes in actuarial differences	(2,508)	225
Employers' contributions	2,620	2,497
Retirement benefits paid	(2,242)	(2,466)
Decrease due to business divesture	−	(425)
Plan assets - ending balance	¥ 34,845	¥ 35,752

(3) Ending balances of projected benefit obligation and plan assets and amounts included in the consolidated balance sheets as of 31st March 2020 and 2021 were as follows:

	Millions of yen			
		2020		**2021**
Projected benefit obligation under funded plans	¥	38,038	¥	35,309
Plan assets		(34,845)		(35,752)
		3,192		(443)
Projected benefit obligation under non-funded plans		8,879		9,675
Net balance in the consolidated balance sheet	¥	12,072	¥	9,232
Net defined benefit liability	¥	12,133	¥	11,130
Net defined benefit asset		(60)		(1,898)
Net balance in the consolidated balance sheet	¥	12,072	¥	9,232

(4) Components of retirement benefit cost were as follows:

	Millions of yen			
		2020		**2021**
Service cost	¥	1,914	¥	1,785
Interest cost		138		112
Expected return on plan assets		(1,133)		(1,076)
Amortisation of actuarial differences		696		670
Amortisation of past service cost		(77)		(73)
Other		24		38
Retirement benefit cost	¥	1,563	¥	1,456
Additional payment for early retirement (Note)	¥	3,289	¥	–

Note: Additional payment for early retirement was included in “Extraordinary losses.”

(5) Remeasurements of defined benefit plans in other comprehensive income before the effect of deferred income tax were as follows:

	Millions of yen	
	2020	**2021**
Past service cost	¥ (77)	¥ (105)
Actuarial differences	1,165	555
Total	¥ 1,088	¥ 450

(6) Remeasurements of defined benefit plans in accumulated comprehensive income before the effect of deferred income tax were as follows:

	Millions of yen	
	2020	**2021**
Unrecognised past service cost	¥ (588)	¥ (482)
Unrecognised actuarial differences	4,625	4,069
Total	¥ 4,036	¥ 3,586

(7) Information on plan assets was as follows:

(i) The breakdown of plan assets by major category was as follows:

	2020	**2021**
General account of life insurance	39%	38%
Debt securities	29%	34%
Real estate investment funds	14%	14%
Cash and deposits	16%	12%
Equity securities	1%	2%
Other	1%	0%
Total	100%	100%

Total plan assets include 3% and 2% contribution to the retirement benefit trust in the retirement benefit plans for the years ended 31st March 2020 and 2021, respectively.

(ii) Long-term expected rate of return on plan assets is determined based on the current and future allocation of plan assets and the current and long-term return on various components of the assets.

(8) Actuarial assumptions (weighted-average rate) were as follows:

	2020	**2021**
Discount rate	0.25%	0.25%
Long-term expected rate of return	3.14%	3.12%
Estimated rate of salary increase	1.15%	1.12%

Note: Estimated rate of salary increase is an expected rate of increase in retirement benefit points.

2. Defined benefit plans under the simplified method

(1) Changes in projected benefit obligation for the defined benefit plans under the simplified method were as follows:

	Millions of yen	
	2020	**2021**
Projected benefit obligation - beginning balance	¥ 1,916	¥ 1,859
Defined benefit cost	360	248
Retirement benefits paid	(189)	(231)
Employers' contributions	(1)	(1)
Decrease due to business divestiture	－	(147)
Decrease due to share exchanges	(195)	－
Other	(30)	(18)
Projected benefit obligation - ending balance	¥ 1,859	¥ 1,709

(2) Ending balances of projected benefit obligation and plan assets and amounts included in the consolidated balance sheets as of 31st March 2020 and 2021 were as follows:

	Millions of yen	
	2020	**2021**
Projected benefit obligation under funded plans	¥ 87	¥ 74
Plan assets	(15)	(15)
	71	59
Projected benefit obligation under non-funded plans	1,788	1,650
Net balance in the consolidated balance sheet	1,859	1,709
Net defined benefit liability	1,859	1,709
Net balance in the consolidated balance sheet	¥ 1,859	¥ 1,709

(3) Retirement benefit cost calculated by the simplified method was ¥360 million and ¥248 million for the years ended 31st March 2020 and 2021, respectively.

3. The amount required for contributions to the defined contribution plans of the Company and its consolidated subsidiaries was ¥667 million and ¥548 million for the years ended 31st March 2020 and 2021, respectively.

4. With the transfer of a portion of the unfunded lump-sum payment plans to defined contribution plans, the plan assets to be transferred to the defined contribution plans amounted to ¥387 million and are planned to be transferred over 8 years beginning from the year ended 31st March 2018. The plan assets not yet transferred amounted to ¥226 million and ¥93 million as of 31st March 2020 and 2021, respectively, and were recorded under "Long-term accounts payable - other."

18. Stock Options

1. The amount of cost and its presentation in the consolidated statements of operations

	Millions of yen	
	2020	**2021**
Selling, general and administrative expenses	¥ 151	¥ 50

2. The amount of income from forfeiture due to non-exercise of options and its presentation in the consolidated statements of operations

	Millions of yen	
	2020	**2021**
"Other" under "Non-operating income"	¥ —	¥ 32

3. Outline of stock options

Number of shares means total shares to be issued upon exercise of subscription rights to shares and is adjusted for the reverse stock split (two-to-one share) executed on 1st September 2014.

	Subscription rights to shares issued in March 2009 as stock options
Title and number of grantees	5 directors, 1 executive officer of the Company and 4 directors, 8 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	46,000 common shares
Date of issue	31st March 2009
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2009 to 31st March 2039

	Subscription rights to shares issued in March 2010 as stock options
Title and number of grantees	6 directors, 1 executive officer of the Company and 4 directors, 16 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	82,500 common shares
Date of issue	31st March 2010
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2010 to 31st March 2040

	Subscription rights to shares issued in March 2011 as stock options
Title and number of grantees	6 directors of the Company and 10 directors, 7 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	97,000 common shares
Date of issue	31st March 2011
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2011 to 31st March 2041

	Subscription rights to shares issued in February 2012 as stock options
Title and number of grantees	6 directors, 1 executive officer of the Company and 9 directors, 8 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	99,500 common shares
Date of issue	29th February 2012
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st March 2012 to 28th February 2042

	Subscription rights to shares issued in March 2013 as stock options
Title and number of grantees	6 directors of the Company and 8 directors, 9 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	99,000 common shares
Date of issue	31st March 2013
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2013 to 31st March 2043

	Subscription rights to shares issued in March 2014 as stock options
Title and number of grantees	6 directors of the Company and 10 directors, 7 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	101,000 common shares
Date of issue	31st March 2014
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2014 to 31st March 2044

	Subscription rights to shares issued in March 2015 as stock options
Title and number of grantees	6 directors of the Company and 9 directors, 11 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	109,000 common shares
Date of issue	31st March 2015
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2015 to 31st March 2045

	Subscription rights to shares issued in March 2016 as stock options
Title and number of grantees	5 directors, 1 executive officer of the Company and 7 directors, 14 executive officers of Hankyu Hanshin Department Stores, Inc
Number of stock options (Note 1)	110,000 common shares
Date of issue	31st March 2016
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2016 to 31st March 2046

	Subscription rights to shares issued in March 2017 as stock options
Title and number of grantees	4 directors, 2 executive officers of the Company and 7 directors, 13 executive officers of Hankyu Hanshin Department Stores, Inc
Number of stock options (Note 1)	106,500 common shares
Date of issue	31st March 2017
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2017 to 31st March 2047

	Subscription rights to shares issued in March 2018 as stock options
Title and number of grantees	3 directors, 3 executive officers of the Company and 7 directors, 12 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	100,500 common shares
Date of issue	31st March 2018
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2018 to 31st March 2048

	Subscription rights to shares issued in June 2018 as stock options
Title and number of grantees	3 directors, 3 executive officers of the Company and 8 directors, 10 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	98,500 common shares
Date of issue	30th June 2018
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st July 2018 to 30th June 2048

	Subscription rights to shares issued in July 2019 as stock options (A) (stock-based compensation with seniority-based conditions)
Title and number of grantees	5 directors (excluding audit and supervisory committee ("ASC") members), 4 directors as ASC members, 4 executive officers of the Company and 9 directors, 1 corporate auditor, 11 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	112,500 common shares
Date of issue	15th July 2019
Exercise conditions	Note 3
Intended service period	No provisions
Exercise period	From 16th July 2019 to 15th July 2049

	Subscription rights to shares issued in July 2019 as stock options (B) (stock-based compensation with performance-based vesting conditions)

Title and number of grantees	3 directors (excluding non-executive officers), 4 executive officers of the Company and 8 directors (excluding non-executive officers), 11 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	41,000 common shares
Date of issue	15th July 2019
Exercise conditions	Note 4
Intended service period	No provisions
Exercise period	From 16th July 2019 to 15th July 2049

	Subscription rights to shares issued in July 2020 as stock options (A) (stock-based compensation with seniority-based conditions)
Title and number of grantees	4 directors (excluding ASC members), 5 directors as ASC members, 4 executive officers of the Company and 9 directors, 1 corporate auditor, 10 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	113,000 common shares
Date of issue	15th July 2020
Exercise conditions	Note 3
Intended service period	No provisions
Exercise period	From 16th July 2020 to 15th July 2050

	Subscription rights to shares issued in July 2020 as stock options (B) (stock-based compensation with performance-based vesting conditions)
Title and number of grantees	3 directors (excluding non-executive officers), 4 executive officers of the Company and 8 directors (excluding non-executive officers), 10 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	39,000 common shares
Date of issue	15th July 2020
Exercise conditions	Note 4
Intended service period	No provisions
Exercise period	From 16th July 2020 to 15th July 2050

Notes:

1. Number of options is listed as number of shares.
2. Exercise is subject to the following conditions.

(1) The grantee can exercise subscription rights to shares only for five years from the following day of the date the grantee loses the position either as directors, corporate auditors or executive officers of the Company or Hankyu Hanshin Department Stores, Inc., a subsidiary of the Company, ("the commencement date of exercise") within the above exercise period of the subscription rights to shares.

(2) Regardless of (1), the grantee can exercise subscription rights to shares only for each of the following period when stipulated in the following (a) or (b) (except in case of (b) that subscription rights to shares of the target company of reorganisation are granted to the grantee in accordance with note 8 below).

(a) In case the commencement date of exercise does not come before the date one year prior to the last day of the exercise period

From the following day of the date one year prior to the last day of the exercise period until the last day of the exercise period

(b) In case a resolution of a merger agreement in which the Company becomes a disappearing company, or share exchange agreement or share transfer plan in which the Company becomes a wholly-owned subsidiary is approved by the shareholders' meeting of the Company (or resolved by the Board of Directors' meeting if the resolution by the shareholders' meeting is not required)

Within 15 days from the following day of the date of the approval

(3) The grantee cannot exercise the subscription rights to shares if the grantee renounces the subscription rights to shares.

3. Exercise is subject to the following conditions.

(1) The grantee can exercise subscription rights to shares only for five years from the following day of the date the grantee loses the position either as directors (including ASC members), corporate auditors or

executive officers of the Company or subsidiaries of the Company, ("the commencement date of exercise") within the above exercise period of the subscription rights to shares.

(2) Regardless of (1), the grantee can exercise subscription rights to shares only for each of the following period when stipulated in the following (a) or (b) (except in case of (b) that subscription rights to shares of the target company of reorganisation are granted to the grantee in accordance with note 8 below).

(a) In case the commencement date of exercise does not come before the date one year prior to the last day of the exercise period

From the following day of the date one year prior to the last day of the exercise period until the last day of the exercise period

(b) In case a resolution of a merger agreement in which the Company becomes a disappearing company, or share exchange agreement or share transfer plan in which the Company becomes a wholly-owned subsidiary is approved by the shareholders' meeting of the Company (or resolved by the Board of Directors' meeting if the resolution by the shareholders' meeting is not required)

Within 15 days from the following day of the date of the approval

(3) Regardless of the above (1) and (2), the grantee cannot exercise the subscription rights to shares if the grantee does not have a position as directors, etc. of the target company as of the end of the fiscal year in which the date of allotment is pertaining to, except in case where there is a separate arrangement.

4. Exercise is subject to the following conditions

(1) The grantee can exercise number of exercisable rights fixed within the rage from 0% to 100% of the allotted subscription rights to shares, depending on a degree of achievement of the management indicator or other indicator that is preassigned in the mid-term plan by the Board of Directors of the Company, in the final year of the mid-term plan only for five years from the following day of the date the grantee loses the position (only when resignation due to expiration of term of office or other legitimate reason that the Company permits) either as directors (including ASC members), corporate auditors or executive officers of the Company or subsidiaries of the Company, ("the commencement date of exercise") within the above exercise period of the subscription rights to shares.

The performance-based indicators are as follows:

Performance-based criteria for 2019 to 2021

Indicator	Target figure	Proportion
(a) Consolidated ordinary income	¥25 billion	50%
(b) Consolidated ROIC	4.0%	50%

(2) Regardless of (1), the grantee can exercise subscription rights to shares only for each of the following period when stipulated in the following (a) or (b) (except in case of (b) that subscription rights to shares of the target company of reorganisation are granted to the grantee in accordance with note 8 below).

(a) In case the commencement date of exercise does not come before the date one year prior to the last day of the exercise period

From the following day of the date one year prior to the last day of the exercise period until the last day of the exercise period

(b) In case a resolution of a merger agreement in which the Company becomes a disappearing company, or share exchange agreement or share transfer plan in which the Company becomes a wholly-owned subsidiary is approved by the shareholders' meeting of the Company (or resolved by the Board of Directors' meeting if the resolution by the shareholders' meeting is not required)

Within 15 days from the following day of the date of the approval

(3) Regardless of the above (1) and (2), the grantee cannot exercise the subscription rights to shares until the following conditions are satisfied, except in case where there is a separate arrangement.

(a) The number of exercisable rights is fixed.

(b) The grantee maintains a position of directors, etc. at the target company as of the end of the fiscal year in which the date of allotment is pertaining to.

4. Scale and changes in stock options

The following table describes the scale and changes in stock options that existed during the year ended 31st March 2021. The number of stock options has been translated into number of shares and is adjusted for the reverse stock split (two-to-one share) executed on 1st September 2014.

In the year ended 31st March 2021:	March 2009 stock options	March 2010 stock options	March 2011 stock options	February 2012 stock options	March 2013 stock options	March 2014 stock options	March 2015 stock options	March 2016 stock options	March 2017 stock options	March 2018 stock options	June 2018 stock options
Before vested											
As of 31st March	–	–	–	–	–	–	–	–	–	–	–
Granted	–	–	–	–	–	–	–	–	–	–	–
Forfeited	–	–	–	–	–	–	–	–	–	–	–
Vested	–	–	–	–	–	–	–	–	–	–	–
Outstanding	–	–	–	–	–	–	–	–	–	–	–
After vested											
As of 31st March	10,500	20,000	30,500	33,500	46,000	56,000	90,500	104,000	100,500	100,500	98,500
Vested	–	–	–	–	–	–	–	–	–	–	–
Exercised	2,000	4,500	7,500	7,500	12,000	17,000	20,000	20,000	–	–	–
Forfeited	–	–	–	–	–	–	3,000	3,000	3,000	3,000	4,000
Outstanding	8,500	15,500	23,000	26,000	34,000	39,000	67,500	81,000	97,500	97,500	94,500

In the year ended 31st March 2021:	July 2019 stock options (A) (stock-based compensation with seniority-based conditions)	July 2019 stock options (B) (stock-based compensation with performance-based vesting conditions)	July 2020 stock options (A) (stock-based compensation with seniority-based conditions)	July 2020 stock options (B) (stock-based compensation with performance-based vesting conditions)
Before vested				
As of 31st March	–	41,000	–	–
Granted	–	–	113,000	39,000
Forfeited	–	2,000	4,000	2,000
Vested	–	–	109,000	–
Outstanding	–	39,000	–	37,000
After vested				
As of 31st March	111,500	–	–	–
Vested	–	–	109,000	–
Exercised	–	–	–	–
Forfeited	4,000	–	–	–
Outstanding	107,500	–	109,000	–

Price information

	Yen										
In the year ended 31st March 2021:	March 2009 stock options	March 2010 stock options	March 2011 stock options	February 2012 stock options	March 2013 stock options	March 2014 stock options	March 2015 stock options	March 2016 stock options	March 2017 stock options	March 2018 stock options	June 2018 stock options
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
Average exercise price	¥693	¥745	¥762	¥762	¥820	¥798	¥777	¥816	¥–	¥–	¥–
Fair value at the grant date	¥986	¥1,136	¥984	¥1,100	¥1,932	¥1,566	¥2,141	¥1,798	¥1,645	¥1,791	¥1,615

	Yen			
In the year ended 31st March 2021:	July 2019 stock options (A) (stock-based compensation with seniority-based conditions)	July 2019 stock options (B) (stock-based compensation with performance-based vesting conditions)	July 2020 stock options (A) (stock-based compensation with seniority-based conditions)	July 2020 stock options (B) (stock-based compensation with performance-based vesting conditions)
Exercise price	¥1	¥1	¥1	¥1
Average exercise price	–	–	–	–
Fair value at the grant date	¥995	¥985	¥460	¥452

5. Valuation method for estimating per share fair value of stock options

Valuation technique used for valuating fair value of subscription rights to shares issued in July 2020 as stock options and granted during the year ended 31th March 2021 was as follows:

Stock options (A) (stock-based compensation with seniority-based conditions)

Valuation method used was Adjusted Black-Scholes option-pricing model.

Principal parameters and estimation method

	July 2020 stock options (A)
Expected volatility of the underlying stock (Note 1)	31.86%
Remaining expected life of the option (Note 2)	7.3 years
Expected dividends on the stock (Note 3)	¥40.0 per share
Risk-free interest rate during the expected option term (Note 4)	(0.105)%

Notes: 1. In the year ended 31st March 2021, the fair value of stock options was calculated on the basis of the Company's weekly share price movements from March 2013 to July 2020.

2. This period has been calculated using the average period of service for directors (or executive officers) of the Company and the average period of service for directors (or executive officers) from allotment date to retirement date as of the issuing date of the stock options.

3. In the year ended 31st March 2021, the amount of expected dividends was calculated based on the actual dividends paid as the interim dividend and the final dividend for the year ended 31st March 2020.

4. This rate has been calculated using the compound interest rate on Japanese Government Bonds whose remaining period is similar to that of the stock options.

Stock options (B) (stock-based compensation with performance-based vesting conditions)

Valuation method used was Adjusted Black-Scholes option-pricing model.

Principal parameters and estimation method	July 2020 stock options (B)
Expected volatility of the underlying stock (Note 1)	32.41%
Remaining expected life of the option (Note 2)	7.6 years
Expected dividends on the stock (Note 3)	¥40.0 per share
Risk-free interest rate during the expected option term (Note 4)	(0.089)%

Notes: 1. In the year ended 31st March 2021, the fair value of stock options was calculated on the basis of the Company's weekly share price movements from December 2012 to July 2020.

2. This period has been calculated using the average period of service for directors (or executive officers) of the Company and the average period of service for directors (or executive officers) from allotment date to retirement date as of the issuing date of the stock options.

3. In the year ended 31st March 2021, the amount of expected dividends was calculated based on the actual dividends paid as the interim dividend and the final dividend for the year ended 31st March 2020.

4. This rate has been calculated using the compound interest rate on Japanese Government Bonds whose remaining period is similar to that of the stock options.

5. Method used to estimate the number of vested subscription rights to shares

Because it is difficult to estimate the number of forfeitures in the future reasonably, only actual number of forfeitures is reflected to estimate the number of vested subscription rights to shares. For stock options (B) (stock-based compensation with performance-based vesting conditions), number of forfeitures due to non-vesting is estimated, considering vesting conditions.

19. Income Taxes

Income taxes consist of corporation, inhabitants and enterprise taxes.

Significant components of the Companies' deferred tax assets and liabilities as of 31st March 2020 and 2021 were as follows:

	Millions of yen	
	2020	**2021**
Deferred tax assets:		
Tax loss carryforwards (Note 2)	¥ 16,997	¥ 23,577
Provision for redemption of gift certificates	1,354	1,481
Provision for bonuses	1,263	1,055
Net defined benefit liability	6,275	4,230
Depreciation	432	570
Impairment loss	12,081	10,651
Retirement benefit trust assets	81	88
Provision for loss on store closings	32	120
Asset retirement obligations	1,211	1,431
Shares in subsidiaries	1,357	1,358
Valuation on the consolidation	1,028	734
Provision for point card certificates	602	565
Allowance for doubtful accounts	1,110	1,050
Unrealised gains and losses on intercompany asset transfers	12,308	14,056
Reserved loss of subsidiaries	1,733	157
Specified accounts pertaining to business combination	234	161
Other	4,539	4,407
	62,645	65,698
Valuation allowance pertaining to tax loss carryforwards (Note 2)	(13,142)	(17,706)
Valuation allowance pertaining to total amount of temporary deductible differences	(28,907)	(27,033)
Valuation allowance (Note 1)	(42,050)	(44,739)
Total deferred tax assets	20,594	20,958
Deferred tax liabilities:		
Reserve for advanced depreciation of non-current assets	(4,705)	(4,539)
Valuation differences of fair value in consolidation	(5,861)	(5,702)
Valuation gain on investment securities resulting from conversion of retirement benefit trust assets (equity securities)	(3,511)	(3,511)
Valuation difference on available-for-sale securities	(11,277)	(17,112)
Unrealised gains and losses on intercompany asset transfers	(992)	(992)
Other	(1,345)	(1,452)
Total deferred tax liabilities	(27,694)	(33,311)
Net deferred tax assets (liabilities)	¥ (7,100)	¥ (12,352)

Changes in Presentation

“Deferred loss on sales of shares of subsidiaries and associates based on Group Taxation Rule” that was separately presented under deferred tax assets in the year ended 31st March 2020 is included in “Unrealised gains and losses on intercompany asset transfers” in the year ended 31st March 2021 due to revision of the presentation method in order to improve the intelligibility. Also, “Unrealised gains and losses on intercompany asset transfers” that was included in “Other” and “Deferred gain on sales of shares of subsidiaries and associates based on Group Taxation Rule” that was separately presented under deferred tax liabilities in the year ended 31st March 2020 are included in “Unrealised gains and losses on intercompany asset transfers” in the year ended 31st March 2021 from the same viewpoint. In order to reflect these changes in presentation method, the notes to the consolidated financial statement for the year ended 31st March 2020 have been reclassified.

As a result, ¥12,308 million that was presented as “Deferred loss on sales of shares of subsidiaries and associates based on Group Taxation Rule” under deferred tax assets for the year ended 31st March 2020 has been reclassified to “Unrealised gains and losses on intercompany asset transfers.” ¥(1,347) million that was presented as “Other” and ¥(991) million that was presented as “Deferred gain on sales of shares of subsidiaries and associates based on Group Taxation Rule” under deferred tax liabilities for the year ended 31st March 2020 have been reclassified to ¥(1) million of “Unrealised gains and losses on intercompany asset transfers” and ¥(1,345) million of “Other,” and ¥(991) million of “Unrealised gains and losses on intercompany asset transfers,” respectively.

Notes: 1. Valuation allowance increased by ¥2,689 million mainly due to the valuation allowance pertaining to tax loss carryforwards in the amount of ¥4,563 million recognised by the consolidated subsidiaries and pertaining to decrease of impairment loss in the amount of ¥2,532 million.

2. Expected maturity of the deferred tax assets after the balance sheet date for tax loss carryforwards

	Millions of yen						
2020	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Tax loss carryforwards (*1)	¥ 36	¥ 246	¥ 634	¥ 962	¥ 3,063	¥ 12,054	¥ 16,997
Valuation allowance	(24)	(246)	(454)	(781)	(1,224)	(10,411)	(13,142)
Deferred tax assets	11	–	179	181	1,838	1,642	(*2) 3,854

*1. The amount of tax loss carryforwards was calculated by using the statutory tax rate.

*2. For tax loss carryforwards of ¥16,997 million (applying the statutory tax rate), deferred tax assets of ¥5,871 million were recorded which mainly consisted of deferred tax assets related to tax loss carryforwards of ¥3,854 million recognised by H2O Asset Management Co., Ltd. The tax loss carryforwards were incurred because impairment losses, etc., which were previously not allowed to be deducted for tax purposes were permitted to be deducted from the year ended 31st March 2016 at H2O Asset Management Co., Ltd. The Company judged the respective deferred tax assets related to tax loss carryforwards as recoverable based on the estimated future taxable income.

2021	Millions of yen Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Tax loss carryforwards (*1)	¥ 156	¥ 221	¥ 720	¥ 2,502	¥ 1,748	¥ 18,227	¥ 23,577
Valuation allowance	(156)	(158)	(646)	(1,911)	(1,619)	(13,213)	(17,706)
Deferred tax assets	–	62	74	590	128	5,014	(*2) 5,871

*1. The amount of tax loss carryforwards was calculated by using the statutory tax rate.

*2. For tax loss carryforwards of ¥23,577 million (applying the statutory tax rate), deferred tax assets of ¥5,871 million were recorded which mainly consisted of deferred tax assets related to tax loss carryforwards of ¥4,799 million recognised by the Company and Hankyu Hanshin Department Stores, Inc. The Company judged the respective deferred tax assets related to tax loss carryforwards as recoverable based on the estimated future taxable income.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate was omitted because loss before income taxes was recognised for the years ended 31st March 2020 and 2021.

20. Asset Retirement Obligations

1. Asset retirement obligations recorded on the consolidated balance sheets

(1) Outline of the asset retirement obligations

The obligation to restore properties to their original state pursuant to real estate lease agreements for store properties, etc.

(2) Calculation method for asset retirement obligations

For the years ended 31st March 2020 and 2021, an estimated usage period of 1 to 47 years and a discount rate of 0.0% to 2.65% were used to calculate the amount of asset retirement obligations.

(3) Changes in the total amount of asset retirement obligations

For the year ended 31st March 2020, asset retirement obligations increased by ¥158 million since it became possible to estimate the restoration costs for closing of the group companies. In addition, the acquisition of property, plant and equipment for the opening of branch shops by Hankyu Oasis Co., Ltd. also resulted in a ¥ 659 million increase in asset retirement obligations. Decrease due to fulfillment of asset retirement obligations is related mainly to Izumiya Co., Ltd.

For the year ended 31st March 2021, asset retirement obligations increased by ¥986 million since it became possible to estimate the restoration costs for closing of the group companies. Decrease due to fulfillment of asset retirement obligations is related mainly to Izumiya Co., Ltd.

Changes in the balances were as follows:

	Millions of yen	
	2020	**2021**
Balance at beginning of year	¥ 2,824	¥ 3,255
Increase due to estimate changes	158	986
Increase due to acquisition of property, plant and equipment	687	–
Adjustments with passage of time	46	47
Decrease due to fulfilment of asset retirement obligations	(152)	(150)
Decrease due to exclusion from consolidation	(309)	(4)
Other	1	–
Balance at end of year	¥ 3,255	¥ 4,134

2. Asset retirement obligations not recorded on the consolidated balance sheets

The Companies are obligated to restore properties to their original state upon leaving based on the real estate leasing agreements for stores, offices, etc. However, when the leasing period of leased assets is unclear and the future leaving is not yet planned, asset retirement obligations are not recorded as it is not possible to reasonably estimate the asset retirement obligations.

21. Segment Information

1. General information about reportable segments

The Companies' reportable segments are components of the Group whose operating results are regularly reviewed by the Board of Directors when making resource allocation and performance assessment decisions and for which discrete financial information is available. The Group is expanding its business activities primarily in the department store business, but also in the supermarket business, the shopping centre business and other businesses. Accordingly, "Department Store Business," "Supermarket Business," "Shopping Centre Business" and "Other Businesses" have been designated as reportable segments.

The "Department Store Business" segment is primarily engaged in the sale of clothing, accessories, home furnishings, foods and others. The "Supermarket Business" segment is engaged in supermarkets and food production, etc. The "Shopping Centre Business" segment is engaged in rental management of commercial facilities and building maintenance. The "Other Businesses" segment is engaged in hotels, remodeling, home delivery, membership management, temporary staffing, eating and drinking establishments and others.

2. Basis of measurement about reportable segment net sales, segment income and loss, segment assets and other items

The accounting policies for the reportable segments are basically the same as those described in Note 2, "Summary of Significant Accounting Policies." Income by reportable segment is presented on an operating income basis. Intersegment sales and transfers are recognised based on current market prices.

3. Information on net sales, segment income (loss), segment assets and other items by reportable segment

Millions of yen

As of and for the year ended 31st March 2020	Department Store Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
Net sales						
External customers	¥ 473,225	¥ 354,115	¥ 8,725	¥ 61,222	¥ –	¥ 897,289
Intersegment	272	5,208	16,840	25,687	(48,009)	–
Total net sales	¥ 473,498	¥ 359,324	¥ 25,565	¥ 86,910	¥ (48,009)	¥ 897,289
Segment income (loss)	¥ 11,486	¥ (2,503)	¥ 4,141	¥ 2,903	¥ (4,856)	¥ 11,171
Segment assets	¥ 184,584	¥ 124,164	¥ 145,101	¥ 479,882	¥ (346,828)	¥ 586,904
Other items						
Depreciation	¥ 6,063	¥ 5,748	¥ 1,920	¥ 4,837	¥ (50)	¥ 18,519
Amortisation of goodwill	–	507	–	74	–	581
Investment in associated companies accounted for by the equity method	258	–	–	10,130	–	10,388
Impairment loss	2,226	11,087	724	327	–	14,366
Increase in property, plant and equipment and intangible assets	8,508	8,655	9,511	8,541	(92)	35,125

Notes: 1. Adjustments are as follows:

Adjustment of segment income (loss) was ¥(4,856) million for the year ended 31st March 2020 and comprised the elimination of intersegment transactions.

For the year ended 31st March 2020, adjustment of assets was ¥(346,828) million and included ¥(178,634) million offset elimination of investments and capital, ¥(165,679) million offset elimination of debts and credits and ¥(2,781) million adjustment for unrealised gains and losses on non-current assets.

Adjustment of depreciation amounting to ¥(50) million and adjustment of increase in property, plant and equipment and intangible assets amounting to ¥(92) million consisted of the elimination of intersegment transactions for the year ended 31st March 2020.

2. Segment income (loss) is reconciled to operating income in the consolidated statement of operations.

As of and for the year ended 31st March 2021	Department Store Business	Supermarket Businesses	Shopping Centre Business	Other Businesses	Adjustments	Total
	Millions of yen					
Net sales						
External customers	¥ 347,768	¥ 281,116	¥ 63,262	¥ 47,051	¥ –	¥ 739,198
Intersegment	276	8,372	11,462	21,469	(41,579)	–
Total net sales	¥ 348,044	¥ 289,488	¥ 74,724	¥ 68,520	¥ (41,579)	¥ 739,198
Segment income (loss)	¥ (1,903)	¥ 4,170	¥ (113)	¥ (2,690)	¥ (3,901)	¥ (4,438)
Segment assets	¥ 184,775	¥ 99,222	¥ 165,179	¥ 527,192	¥ (350,424)	¥ 625,945
Other items						
Depreciation	¥ 5,930	¥ 3,661	¥ 2,889	¥ 5,711	¥ (51)	¥ 18,141
Amortisation of goodwill	–	507	–	39	–	546
Investment in associated companies accounted for by the equity method	257	–	–	9,849	–	10,106
Impairment loss	6,056	2,567	6,127	1,622	–	16,374
Increase in property, plant and equipment and intangible assets	10,305	3,690	2,728	6,053	(78)	22,699

Notes: 1. Adjustments are as follows:

Adjustment of segment income (loss) was ¥(3,901) million for the year ended 31st March 2021 and comprised the elimination of intersegment transactions.

For the year ended 31st March 2021, adjustment of assets was ¥(350,424) million and included ¥(187,562) million offset elimination of investments and capital, ¥(159,850) million offset elimination of debts and credits and ¥(2,721) million adjustment for unrealised gains and losses on non-current assets.

Adjustment of depreciation amounting to ¥(51) million and adjustment of increase in property, plant and equipment and intangible assets amounting to ¥(78) million consisted of the elimination of intersegment transactions for the year ended 31st March 2021.

2. Segment income (loss) is reconciled to operating income in the consolidated statement of operations.

3. Among the businesses of Izumiya Co., Ltd, which were included in the “Supermarket Business” segment for the year ended 31st March 2020, clothing and home furnishings sales and tenant management businesses were divested to H2O Shopping Center Development Co., Ltd. as of 1st April 2020. As a result, net sales of ¥59,981 million (net sales to external customers of ¥55,763 million and intersegment net sales of ¥4,218 million) and segment loss of ¥ (3,710) million, which were previously included in “Supermarket Business” segment, are included in “Shopping Centre Business” segment for the year ended 31st March 2021. In addition, segment assets of “Shopping Centre Business” increased by ¥23,967 million while those of the “Supermarket Business” decreased by the same amount comparing to the end of the year ended 31st March 2020.

(Related Information)

Amortisation of goodwill and unamortised balance by reportable segments

Millions of yen

As of and for the year ended 31st March 2020	Department Store Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
Goodwill						
Amortisation	¥ –	¥ 507	¥ –	¥ 74	¥ –	¥ 581
Impairment	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –
Unamortised balance	¥ –	¥ 3,212	¥ –	¥ 93	¥ –	¥ 3,305

Note: In "Other Businesses," as of 1st February 2020, KAZOKUTEI CO., LTD. was excluded from the scope of consolidation as a result of the share exchanges which resulted in a decline in goodwill of ¥280 million.

Millions of yen

As of and for the year ended 31st March 2021	Department Store Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
Goodwill						
Amortisation	¥ –	¥ 507	¥ –	¥ 39	¥ –	¥ 546
Impairment	¥ –	¥ –	¥ –	¥ 54	¥ –	¥ –
Unamortised balance	¥ –	¥ 2,704	¥ –	¥ –	¥ –	¥ 2,704

22. Related Party Transactions

For the year ended 31st March 2020

Transactions with related parties

(1) Transactions between the reporting entity of the consolidated financial statements and related parties: None

(2) Transactions between subsidiaries of the reporting entity of the consolidated financial statements and related parties

(a) Directors, corporate auditors and major individual shareholders of the reporting entity of the consolidated financial statements: None

(b) Companies whose parent is the same as the parent of the reporting entity or the other related companies

Classification	Name of company or individual	Location	Capital or investment	Occupation or business lines	Ownership of voting rights (%)	Nature of relationship	Nature of transactions	Value of transactions	Accounting designation	Ending balance
Subsidiaries of companies that have significant stakes in the reporting entity	Hankyu Corporation	Kita-ku, Osaka City	¥100 million	Railway operations, real estate rental and dealership operations, stage revues, retailing	–	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental expenses	¥9,821 million	Accounts receivable - other	¥294 million
									Prepaid expenses	¥231 million
									Accounts payable - other	¥20 million
									Accrued expenses	–
							Fees for display of signs, etc.	¥8 million	Prepaid expenses	¥0 million
							Deposits of guarantee money	¥113 million	Guarantee deposits	¥24,873 million
	HANSHIN ELECTRIC RAILWAY CO., LTD.	Fukushima-ku, Osaka City	¥29,384 million	Railway operations, real estate rental and dealership operations, sports business, travel business	11.96% shares of the Company directly held	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental expenses	¥2,797 million	Accounts receivable - other	¥36 million
									Prepaid expenses	¥63 million
									Accounts payable - other	¥2 million
									Accrued expenses	¥31 million
							Fees for display of signs, etc.	¥0 million	Prepaid expenses	–
							Deposits of guarantee money	¥95 million	Guarantee deposits	¥8,575 million
							Return of guarantee money	¥2 million		

Business terms and policies for determination of business terms

Notes 1. Transaction amounts are exclusive of consumption taxes; ending balances (exclusive of guarantee deposits) include consumption taxes.

2. Rent expenses for buildings are determined by current market rates.

3. All other matters are determined according to general terms and conditions.

For the year ended 31st March 2021

Transactions with related parties

(1) Transactions between the reporting entity of the consolidated financial statements and related parties: None

(2) Transactions between subsidiaries of the reporting entity of the consolidated financial statements and related parties

(a) Directors, corporate auditors and major individual shareholders of the reporting entity of the consolidated financial statements: None

(b) Companies whose parent is the same as the parent of the reporting entity or the other related companies

Classification	Name of company or individual	Location	Capital or investment	Occupation or business lines	Ownership of voting rights (%)	Nature of relationship	Nature of transactions	Value of transactions	Accounting designation	Ending balance
Subsidiaries of companies that have significant stakes in the reporting entity	Hankyu Corporation	Kita-ku, Osaka City	¥100 million	Railway operations, real estate rental and dealership operations, stage revues, retailing	–	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental expenses	¥7,944 million	Accounts receivable - other	¥706 million
									Prepaid expenses	¥203 million
									Accounts payable - other	¥20 million
									Accrued expenses	¥1 million
							Fees for display of signs, etc.	¥7 million	Prepaid expenses	¥0 million
							Return of guarantee money	¥6 million	Guarantee deposits	¥24,865 million
	HANSHIN ELECTRIC RAILWAY CO., LTD.	Fukushima-ku, Osaka City	¥29,384 million	Railway operations, real estate rental and dealership operations, sports business, travel business	11.95% shares of the Company directly held	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental expenses	¥2,364 million	Accounts receivable - other	¥174 million
									Prepaid expenses	¥65 million
									Accounts payable - other	¥1 million
									Accrued expenses	¥19 million
							Fees for display of signs, etc.	¥0 million	Prepaid expenses	¥– million
							Deposits of guarantee money	–	Guarantee deposits	¥8,575 million
							Return of guarantee money	–		

Business terms and policies for determination of business terms

Notes 1. Transaction amounts are exclusive of consumption taxes; ending balances (exclusive of guarantee deposits) include consumption taxes.
2. Rent expenses for buildings are determined by current market rates.
3. All other matters are determined according to general terms and conditions.

23. Per Share Information

Reconciliation of the difference between basic and diluted profit per share (Earnings Per Share "EPS") for the years ended 31st March 2020 and 2021 was as follows:

	Millions of yen	
	2020	**2021**
Basic profit per share calculation:		
Profit (loss) (numerator):		
Profit (loss) attributable to owners of parent	¥ (13,150)	¥ (24,791)
Amounts not belonging to common stockholders	–	–
Profit (loss) attributable to owners of parent concerning common stock	(13,150)	(24,791)
Shares (denominator):		
Weighted average number of shares	123,615,772	123,680,359
Basic EPS (yen)	¥ (106.38)	¥ (200.45)
Diluted profit per share calculation:		
Profit (numerator):		
Profit attributable to owners of parent	¥ –	¥ –
Amounts not belonging to common stockholders	–	–
Profit attributable to owners of parent concerning common stock	–	–
Effect of dilutive securities - convertible bonds	–	–
Adjusted profit	–	–
Shares (denominator):		
Weighted average number of shares	123,615,772	123,680,359
Assumed exercise of subscription rights to shares	–	–
Adjusted weighted average number of shares	123,615,772	123,680,359
Diluted EPS (yen)	¥ –	¥ –
Overview of potentially dilutive shares that were not included in the computation of diluted EPS because they have no dilutive effect	Subscription rights to shares of 843,000 shares	Subscription rights to shares of 876,500 shares

Net assets per share (Book value Per Share "BPS") calculation for the years ended 31st March 2020 and 2021 was as follows:

	Millions of yen	
	2020	**2021**
Net assets per share calculation:		
Net assets	¥ 244,634	¥ 229,277
Deduction from net assets	1,317	1,142
(Subscription rights to shares)	(1,312)	(1,138)
(Non-controlling interests)	(4)	(4)
Net assets concerning common stock	243,317	228,134
Number of shares used for the calculation of net assets per share	123,643,177	123,731,588
BPS (yen)	1,967.90	1,843.78

24. Guarantee Deposits

In connection with its department store business, the Company has entered into long-term lease agreements for store sites and other premises. Under such agreements, lessors in Japan generally require the lessee to make substantial deposits in addition to monthly rental payments. A large portion of such deposits is generally refundable only on termination of the lease. The deposits bear no interest or bear interest only at a nominal rate.

25. Short-term and Long-term Loans, Bonds Payable and Lease Obligations

Short-term loans and long-term debt, including finance lease obligations, at 31st March 2020 and 2021 consisted of the following.

	Millions of yen	
	2020	**2021**
Short-term loans payable (0.095% in 2020)	¥ 15,000	¥ –
Current portion of long-term loans payable (0.140% in 2020 and 0.135% in 2021)	18,100	46,414
Lease obligations, current portion	910	910
Long-term loans payable (0.141% in 2020 and 0.251% in 2021), excluding current portion, due through 2037	98,613	122,133
Lease obligations, excluding current portion, due through 2037	13,806	12,883
0.706% H2O Retailing unsecured bonds, due 2024	10,000	10,000
0.480% H2O Retailing unsecured bonds, due 2028	10,000	10,000

Notes: 1. Interest rates on loans payable present weighted average interest rates as at the balance sheet date.

2. Average interest rates on lease obligations have not been provided because certain consolidated subsidiaries record lease obligations in the consolidated balance sheets at the amount before deduction of the amount equivalent to interest rates included in lease payments.

Annual maturities of long-term debt including loans payable, long-term bonds payable and lease obligations as at 31st March 2021 were as follows:

	Millions of yen
	2021
2023	¥ 1,291
2024	17,046
2025	942
2026	28,464

26. Subsequent Events

Transfer of Shares

The Company transferred a part of common shares of Toho Co., Ltd. owned by the Company in accordance with the resolution at the Board of Directors' meeting held on 13th April 2021 as follows:

(1) Method of the transfer

Application to a takeover bid for treasury shares by Toho Co., Ltd.

(2) Overview of the transfer

Number of shares transferred: 1,366,428 shares of common stock

Transfer price: ¥4,208 per share (total transfer price: ¥5,749,929,024)

Date of transfer: 8th June 2021

(3) Effect on profit or loss

Approximately ¥4,500 million of gain on sales is expected to be recorded under extraordinary income for the first quarter ended 30th June 2021.

Transfer of Property, Plant and Equipment 1

The Company transferred the following property, plant and equipment in accordance with the resolution at the Board of Directors' meeting held on 30th March 2021:

(1) Reason of the transfer

To improve an efficiency in the use of assets by effective allocation of management resources and to strengthen the financial conditions

(2) Overview of the transfer

Agreement date of transfer: 30th March 2021

Type of the assets (current status): Land (rental property)

Location of the assets: 1-4-3, Nakatsu, Kita-ku, Osaka City

Date of transfer: 31st May 2021

Transfer price and transferee: It cannot be disclosed due to confidentiality to the transferee; however, the transferee and the transfer price are determined using a fair method by bidding.

(3) Effect on profit or loss

Approximately ¥4,700 million of gain on sales of property, plant and equipment is expected to be recorded under extraordinary income for the first quarter ended 30th June 2021.

Transfer of Property, Plant and Equipment 2

Hankyu Hanshin Department Stores, Inc., a consolidated subsidiary of the Company, transferred the following property, plant and equipment in accordance with the resolution at the Board of Directors' meeting held on 26th April 2021:

(1) Reason of the transfer

To improve an efficiency in the use of assets by effective allocation of management resources and to strengthen the financial conditions

(2) Overview of the transfer

Agreement date of transfer: 26th April 2021

Type of the assets (current status): Land (rental property)

Location of the assets: 1-1 and 1-2, Oyodo Minami, Kita-ku, Osaka City

Date of transfer: 31st May 2021

Transfer price and transferee: It cannot be disclosed due to confidentiality to the transferee; however, the transferee and the transfer price are determined using a fair method by bidding.

(3) Effect on profit or loss

Approximately ¥3,800 million of gain on sales of property, plant and equipment is expected to be recorded under extraordinary income for the first quarter ended 30th June 2021.

Grant of Subscription Rights to Shares as Stock Option Based Compensation

The Company maintains stock option based compensation system, which links to the share price of the Company, aiming for continued growth, improvement of corporate value in medium-to-long term and enhancing shareholder focused mind of the Group. At the Board of Directors' meeting held on 22nd June 2021, the Company resolved the grant of subscription rights to shares as follows in order to grant the stock option based compensation for the year ending 31st March 2022.

1. Grant date
   15th July 2021
2. Number of subscription rights to shares issued
   1,095 units (the upper limit)
3. Type and number of shares subject to subscription rights to shares
   109,500 shares of common stock of the Company (the upper limit)
4. Exercise price
   ¥1 per share
5. Exercise period
   From 16th July 2021 to 15th July 2051
6. Title and number of grantees
   4 directors (excluding ASC members), 5 directors serving as ASC members, and 4 executive officers of the Company
   8 directors, 2 corporate auditors and 10 executive officers of the subsidiaries of the Company
7. Increase in shareholders' equity as a result of the issuance of shares upon the exercise of subscription rights to shares
   (1) The amount of capital stock to be increased as the result of the issuance of shares upon the exercise of subscription rights to shares shall be one half of the maximum amount of capital stock increase calculated in accordance with Article 17, Paragraph 1 of the Regulations on Accounting of Companies, and any amounts of less than ¥1 shall be rounded up.
   (2) The amount of legal capital surplus to be increased as the result of the issuance of shares upon the exercise of subscription rights to shares shall be calculated as the maximum amount of the capital stock increase provided in paragraph (1) above, minus the amount of capital stock to be increased pursuant to paragraph (1) above.
8. Calculation of payment price of subscription rights to shares
   The payment price shall be the fair market value calculated in accordance with the Black-Scholes model as of the grant date of the subscription rights to shares.
   For the grantees who are directors (including directors serving as ASC members) or executive officers of the Company ("Officers of the Company"), the payable amount for subscription rights to shares shall be offset by the remuneration of Officers of the Company. For the grantees who are directors, corporate auditors or executive

officers of the subsidiaries of the Company ("Officers of the Subsidiaries"), the payable amount of the subsidiaries of the Company for the remuneration shall be assumed by the Company and the payable amount for subscription rights to shares shall be offset by the remuneration of the Officers of the Subsidiaries.

Corporate Data

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Outline of the Company (as of 31st March 2021)

Date of Establishment	March 1947
Stated Capital	¥17,796 million
Authorised Shares	150,000,000
Issued and Outstanding Shares	125,201,396
Shareholders	47,975
Employees	95 (H2O Retailing Corporation) 8,983 (Consolidated basis)

Principal Shareholders (as of 31st March 2021)

Shareholders	Number of shares (thousands of shares)	Ratio of shareholdings
Hanshin Electric Railway Co., Ltd.	14,749	11.9%
Hankyu Hanshin Holdings, Inc.	10,336	8.4%
The Master Trust Bank of Japan, Ltd. (Trust account)	7,291	5.9%
Takashimaya Co., Ltd.	6,259	5.1%
Custody Bank of Japan, Ltd. (Trust account)	4,256	3.4%
Izumiya Kyowakai Assn.	2,824	2.3%
NORTHERN TRUST GLOBAL SERVICES SE, LUXEMBOURG RE LUDU RE: UCITS CLIENTS 15.315 PCT NON TREATY ACCOUNT (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo branch)	1,855	1.5%
H2O Retailing Group Employees' Shareholding Association	1,785	1.4%
Custody Bank of Japan, Ltd. (Trust account 5)	1,438	1.2%
MUFG Bank, Ltd.	1,365	1.1%

Principal Consolidated Subsidiaries

Subsidiary	Primary business activities
Department Store Business	
Hankyu Hanshin Department Stores, Inc.	Department Stores
Kobe Takatsuki Business	
H2O Asset Management Co., Ltd.	Management of department stores
Shinko Management, Inc.	Management of property
Supermarket Business	
H2O Foods Group Co., Ltd.	Management planning and administration of the food business
Hankyu Oasis Co., Ltd.	Supermarkets
Izumiya Co., Ltd.	General merchandise stores, supermarkets and supercentres
Hankyu Foods, Inc.	Manufacture and sale of laver seaweed and dried foods
Hankyu Bakery Co., Ltd.	Manufacture and sale of bread
Hankyu delica i, Inc.	Manufacture and sale of prepared food
Hankyu Food process Co., Ltd.	Process and sales of fresh food
Qanat Co., Ltd.	Supermarkets
Sun Laurie Co., Ltd.	Restaurants
Shopping Centre Business	
H2O Asset Management Co., Ltd.	Management and development of property
Hankyu Maintenance Service Co., Ltd.	General building maintenance
Hankyu Shopping Center Development Co., Ltd.	Operational management of commercial facilities
Kanso Co., Ltd.	General building maintenance
Other Businesses	
Be-U Co., Ltd.	Sales of apparel, accessories, toys and sporting goods
CARNET CO., LTD.	Sales of ladies shoes and accessories
EveryD.com, Inc.	Supply of the system and the know-how of home-

	delivery service
F.G.J Co., Ltd.	Sales of personal care products
H.D. Base Mode Ltd.	Product planning, production management and sales operation of women's apparel
H2O Smile Co., Ltd.	Contractor engaged in office work and light work for the company
H2O STYLE NET Co., Ltd.	Operational management of internet shopping site
H2O System Co., Ltd.	Data processing and systems development
Hankyu Act For	Contractor engaged in bookkeeping and payroll calculation
Hankyu B&C Planning	Sales of bread and management of cafe
Hankyu Department Stores Uniform	Sales of uniforms
Hankyu Design Systems Co., Ltd.	Commercial design, web design and production, photographing & printing
Hankyu Freds Co., Ltd.	Sales of bread and management of cafes
Hankyu Hanshin Department Stores Tomonokai, Inc.	Membership organisation for customer service
Hankyu Hello Dog Co., Ltd.	Sales of pet-accessories
Hankyu Home Styling Co., Ltd.	Sales of furniture and interior goods
Hankyu Job Yell Co., Ltd.	Manpower dispatching and fee-charging employment agency
Hankyu Kensou Co., Ltd.	Manufacture and sales of furniture and furnishings
Hankyu Kitchen Yell Kansai, Inc.	Membership-based home-delivery service providing groceries and commodities in Kansai Area
Hankyu Kitchen Yell Kyushu, Inc.	Membership-based home-delivery service providing groceries and commodities in Kyushu Area
Hankyu Quality Support	Quality testing and consulting service
Hankyu Sennan Green Farm	Production of organic farm products
Hankyu Trading Services Co., Ltd.	Foreign trade business
Hankyu Wedding	Costume salon for bridal use

Heart Dining, Inc.	Management of cafe, restaurants and company cafeteria
KAETOKU SERVICE Co., Ltd.	Sales of electronic gift certificates
KAZOKUTEI CO., LTD.	Restaurants mainly serving "Soba/Udon"
Oi Development Co., Ltd.	Operational management of a hotel
Persona Co., Ltd.	Management of services for members of Persona card
Souq Company Co., Ltd.	Product planning/manufacture/wholesaling, event planning and Internet sales, etc.
Suzhou Izumiya Co., Ltd.	A department store in Suzhou, China

H2O RETAILING CORPORATION
2-6-27, Shibata, Kita-ku, Osaka 530-0012
Telephone: +81 (0) 6 - 6365 - 8120
Facsimile: +81 (0) 6 - 6486 - 8320
URL: http://www.h2o-retailing.co.jp/